



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Receive and file the City's Comprehensive Annual Financial Report (Fiscal Year 2005-06) by Macias, Gini & O'Connell, LLP

MEETING DATE: January 3, 2007

PREPARED BY: Financial Services Manager

RECOMMENDED ACTION: Receive and file the following reports and financial statements submitted by Macias, Gini & O'Connell, LLP and the Finance Department for Fiscal-Year 2005-06:

- The Combined Annual Financial & Single Audit Report
- Management Report
- Report on Applying Agreed-upon Procedures

BACKGROUND INFORMATION: The annual audit was conducted to assure the City Council and other interested parties that the City's financial records and reports are prepared in accordance with generally accepted accounting principles (GAAP), that internal controls are adequate to safeguard the City against loss from unauthorized use or disposition of assets and that the City has complied with all agreements and covenants to obtain grant funds and debt financing. Macias, Gini & O'Connell, LLP ("MGO") issued an "unqualified opinion." Scott Brunner, Director of MGO will be present to do the presentation and answer questions during the Council meeting.

The reports will be provided to Federal and State oversight agencies, bond trustees and insurance companies for their review and evaluation. Copies of the reports are provided to the City Council and also available to the public by contacting the Financial Services Division or the City's website at www.lodi.gov and at the Lodi Public Library.

The auditors will report to the Council on Governmental Accounting Standards Board statement number 45.

Certificate of Achievement

The City received a Certificate of Achievement for Excellence in Reporting from the Government Finance Officers Association of United States and Canada (GFOA) for the 13th year and the California Society of Municipal Finance Officers (CSMFO) for the ninth year in a row. A copy of the GFOA certificate is included in the 2005-06 Financial Reports.

FUNDING: None

Ruby R. Paiste

Ruby R. Paiste, Financial Services Manager

APPROVED:

James R. King

Blair King, City Manager

CITY OF LODI

Agreed-Upon Procedures Report For
Gann Appropriations Limit

For the Fiscal Year Ended June 30, 2006



MACIAS GINI & COMPANY_{LLP}

CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

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City Council
Lodi, California

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES RELATED TO THE ARTICLE XIII-B APPROPRIATIONS LIMIT CALCULATION

We have performed the procedures enumerated below to the accompanying Appropriations Limit Worksheet of the City of Lodi, California (City) for the fiscal year ended June 30, 2006. These procedures, which were agreed to by the City Council of the City of Lodi, California, and the League of California Cities (as presented in the publication entitled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitutions*), were performed solely to assist the City in meeting the requirements of Section 1.5 of Article XIII-B of the California Constitution. The City management is responsible for the Appropriations Limit Worksheet. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the City's reports setting forth the calculations necessary to establish the City's appropriations limit and documentation utilized to calculate such limit for fiscal year 2005-06.

Finding: No exceptions were noted as a result of our procedures.

2. We determined that the current appropriations limit and annual adjustment factors used to calculate the appropriations limit for fiscal year 2005-06 set forth in the accompanying Appropriations Limit Worksheet and the aforementioned City reports, were adopted by resolution of the City Council. We also determined that the population and inflation options were selected by a recorded vote of the City Council.

Finding: No exceptions were noted as a result of our procedures.

3. For the accompanying Appropriations Limit Worksheet, we added the appropriations limit, fiscal year 2004-05, amount to the annual adjustment amount and agreed the resulting amount to the appropriations limit, fiscal year 2005-06, as adopted, amount.

Finding: No exceptions were noted as a result of our procedures.

4. We agreed the current year information presented in the accompanying Appropriations Limit Worksheet to the appropriate aforementioned City reports.

Finding: No exceptions were noted as a result of our procedures.

5. We agreed the appropriations limit, fiscal year 2004-05, amount presented in the accompanying Appropriations Limit Worksheet to the prior year appropriations limit adopted by the City Council.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on the accompanying Appropriations Limit Worksheet. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII-B of the California Constitution.

This report is intended solely for the information and use of the City Council and management and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Company, LLP

Certified Public Accountants

Sacramento, California

June 23, 2006

CITY OF LODI
APPROPRIATIONS LIMIT WORKSHEET
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Amount
Appropriations limit, fiscal year 2004-05	<u>\$ 62,182,939</u>
Adjustment factors:	
Population increase, 2005-06	1.0096
Inflation increase, 2005-06	<u>1.0526</u>
Total adjustment factor	<u>6.2705%</u>
Annual adjustment	<u>3,899,179</u>
Appropriations limit, fiscal year 2005-06, as adopted	<u><u>\$ 66,082,118</u></u>

CITY OF LODI, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended June 30, 2006

SUSAN HITCHCOCK, MAYOR
BOB JOHNSON, MAYOR PRO TEMP
JOHN BECKMAN, COUNCILMEMBER
LARRY HANSEN, COUNCILMEMBER
JOANNE MOUNCE, COUNCILMEMBER

BLAIR KING, CITY MANAGER

Prepared by the Finance Department
James Krueger, Deputy City Manager/Internal Services Director/Treasurer
Ruby Paiste, Financial Services Manager
Coriene Wadlow, Sr. Accountant
Odette Bondoc, Accountant II

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**CITY OF LODI
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2006**

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CITY COUNCIL

SUSAN HITCHCOCK , Mayor

BOB JOHNSON , Mayor Pro
Tempore

COUNCILMEMBERS:

JOHN BECKMAN

LARRY HANSEN

JOANNE MOUNCE

CITY OF LODI

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BLAIR KING

City Manager

RANDI JOHL

City Clerk

STEVE SCHWABAUER

City Attorney

December 1, 2006

**To the Honorable Mayor, Members of the City Council
and Manager of the City of Lodi:**

The Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006, is hereby submitted. This report is provided to present the financial position, results of operations and cash flows of the City's proprietary funds as of June 30, 2006, in conformity with generally accepted accounting principles. The report conforms to the highest standards of financial reporting as established by the Governmental Accounting Standards Board (GASB), for reporting by State and local governments. The responsibility for the accuracy, fairness and completeness of the report rests with the City.

This report consists of management's representations concerning the finances of the City of Lodi. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Lodi has established a comprehensive internal control framework that is designed to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. We believe that the information is accurate in all material respects and that it is presented in a manner designed to fairly present the financial position of the City. In addition, we believe that all disclosures necessary to enable the reader to gain full understanding of the City's financial activities have been included.

The CAFR is presented in four sections: introductory, a financial section, a statistical section and single audit section. The introductory section includes the transmittal letter, the City's organization chart and a list of principal officials. The financial section includes the independent auditors' report, management discussion and analysis, the basic financial statements, notes to the financial statements, required supplementary schedules, and the combining and individual statements. The single audit section includes the schedule of expenditures of federal awards, notes to the schedule, and reports on compliance and internal control based on the audit of the basic financial statements and on compliance and internal control with requirements applicable to each major program in accordance with OMB Circular A-133. The statistical section includes selected financial and demographic information presented on a multi-year basis.

This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditors' report.

THE REPORTING ENTITY AND SERVICES PROVIDED

The funds included in the CAFR are those deemed dependent upon the City and controlled by the City Council and reflect the City's financial reporting entity in accordance with GASB Statement 14.

The City of Lodi (City) was incorporated December 6, 1906, as a municipal corporation under the general laws of the State of California. The City operates under a Council-Manager form of government. Under the Council-Manager form of government, policy making and legislative authority are entrusted to the City Council. The City Council consists of five members elected at-large by its voters for four-year terms, with no term limits. Elections are held in November of even-numbered years. Each year the Mayor and Mayor Pro-Tempore are chosen by the members of the City Council. The Mayor presides at Council meetings and acts as the ceremonial head of the City, the Mayor Pro Tempore serves as Mayor in his or her absence. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for appointing department heads, and overseeing the operations of the City. The City Manager, City Attorney and the City Clerk are appointed by the City Council.

The City provides a wide range of municipal services including public safety (police, fire and graffiti abatement), public utilities services (electric, water and wastewater), transportation services (streets, flood control and transit) leisure, cultural and social services (parks and recreation, library and community center), and general government services (management, human resources administration, financial administration, building maintenance and equipment maintenance).

Several municipal services are provided through other government agencies, private companies or public utility companies, including:

	Number of Facilities
Elementary and Secondary Schools	18
Sanitation (solid waste) and Cable Television	2
Ambulance	1
Gas and Telephone	2

ECONOMIC CONDITION AND OUTLOOK

The City is located in the San Joaquin Valley between Stockton 10 miles to the south, and Sacramento 35 miles to the north, and adjacent to U.S. Highway 99. The City population is 62,817 and is contained in an area of 12.81 square miles. The City has grown steadily since incorporation in 1906 and is projected to grow to 70,500 people by the year 2012. The City's growth is provided for in both the General Plan and the City's growth control ordinance that allows an increase in population of 2% per year until the growth limits are reached.

Lodi is built on a strong and broad based agricultural industry with national and industrial markets for its commodities and products. Wines, processed foods, nuts, fruit and milk are major commodities of the Lodi area and provide the basic material for food processing and packaging. These commodities support the operations of General Mills, Guild Winery and Pacific Coast Producers to name just three companies in the business of processing local agricultural commodities.

In addition, Lodi has a wide range of small, financially sound businesses that add to the economic strength of the City. These companies range in size from 10 to 150 employees and produce a wide variety of products, services and commodities.

Over the past several years, there has been an increase in industrial and residential development that has been unprecedented since the early 1980s. This new development combined with the growing strength of the wine/grape industry is a positive indicator for Lodi. The City's focus on economic development has successfully encouraged numerous big industries to move to Lodi that collectively created hundreds of new jobs.

Economic Development

Lodi continues to be committed to promoting economic development (business retention and attraction) and expanding the tax base to fund city services rather than increase taxes to pay for these services. The City developed long and short-term economic development goals in conjunction with the Chamber of Commerce that resulted in the revitalization projects for the downtown and Cherokee Lane areas. In addition to revitalization efforts, the City has adopted a number of incentives to retain and attract new businesses. These incentives included infrastructure improvements, regulatory flexibility, tax credits and utility rate incentives.

MAJOR GOALS, OBJECTIVES AND PROJECTS

To assist the citizens of Lodi in understanding where the City intends to allocate available resources, the City Council, the City Manager and Department Heads have established a hierarchy of major goals, objectives and major projects that support and re-enforce the City's mission statement.

Four major City goals were established as policy direction and focal points for the efforts of City staff. These goals include:

- Ensure a High Quality of Life and a Safe Environment for Citizens
- Ensure Efficient and Productive City Organization
- Ensure Public Trust, and
- Ensure the Development of the Lodi Economy for a Fiscally Sound City Organization

City Council, the City Manager and Department Heads established nineteen major City objectives:

- | | |
|---|---|
| Maintain City's Sense of Community | Provide Employee Training and Education |
| Provide for a Balanced Community | Evaluate Telecommunications Opportunities |
| Enhance Access through Implementation of Information Systems Strategic Plan | Provide Resources to Maintain City's Infrastructure |
| Promote Urban Forestry | Promote Public Relations and Marketing Efforts |
| Attract, Retain and Invest in a Quality City Work Force | Ensure Open and Accessible Public Meetings |
| Encourage Public Arts, Cultural and Recreational Opportunities | Pursue Efforts to be Entrepreneurial |
| Provide Appropriate and Sufficient City Facilities | Improve Customer Service |
| Develop Short and Long Range Operational Plans | Continue to use Partnerships to Advance City's Objectives |
| Develop Effective Records Management Program | Provide a Balanced Budget & Adhere to Adopted Policies |
| Promote Commercial/Industrial Base | |

Projects represent the foundation of the planning statements for the City of Lodi. These projects are designed to accomplish specific objectives and become the focus for organization wide effort.

As discussed above, economic revitalization continued to be an active focal point of the City in 2005-06. The following major City projects were planned in the 2003-05 two-year budget document: 1) remodel of the old Public Safety building and Civic Center Complex; 2) replacement of Animal Shelter Facility; 3) construction of the DeBenedetti Park/G-Basin; 4) development and construction of an indoor sports and activity center; and 5) construction of an aquatics complex.

During fiscal year 2005-06, some of these projects were in various phases of the capital improvement project process, and some General Fund projects were put on hold until a revenue stream is identified.

The slow down in the capital development comes at a time when the cost of City services is increasing leaving less discretionary money. The following projects have all been placed on hold awaiting additional funding sources:

Public Safety Building Remodel and Expansion

The Public Safety Building is over thirty years old and it has many mechanical and design deficiencies. Remodeling this building to provide additional workspace, parking and related site improvements, a complete retrofit of the HVAC system, replacement of jail facility, full compliance with the Americans with Disabilities Act requirements, more space for public safety officers and a Police and Civic center parking structure.

Animal Shelter Facility

The Lodi Animal shelter was built in the 1960's to service a community of approximately 26,000. As most shelters built at that time, its purpose was to be a "dog pound", i.e. a place to impound stray and vicious dogs before euthanizing them. The current shelter cannot meet the newly mandated State law or fulfill the expectations of a community eager to provide more humane animal care.

The estimated cost of the project is \$4 million, which is \$1.5 greater than the original estimate made in June 2001. This will be an 18,000 square foot facility on a 3-acre site. It will include kennels, isolation kennels, community classroom, a clinic, storage areas, exercise areas and areas set aside for expansion of kennels. The project completed the design phase prior to being placed on hold pending identification of a revenue source.

DeBenedetti Park/G-Basin

This project consists of design and development of a youth sports complex (with lighted fields) and park within the "G-basin", which provides storm water storage in the park. This project is one of the highest unranked projects identified by the Parks and Recreation Commission and the City Council. The estimated cost of the project is \$11.2 million, which is approximately \$5 million greater than the estimate in June 2001. The project has gone through the schematic design and construction design phases. The General Fund portion of the project has been put on hold; however, the portions funded by other sources of revenue are expected to proceed.

Indoor Sports and Activity Center

This project consists of development and construction of a 40,000 square foot building to provide space for a gymnasium, exercise rooms, kitchen, meeting rooms and offices for community use. The estimated cost is \$10.9 million and is currently in the schematic design phase. The construction design phase has been completed.

Aquatics Complex

This project consists of design and construction of a recreation pool with water features, a 50-meter competitive pool, snack bar, changing rooms, showers, parking and picnic areas. The estimated cost of the project is \$7 million, which is a \$4 million, increase from the estimate made in June 2001. The project passed through the design phase prior to being placed on hold.

A Citizens Sales Tax Initiative was circulated in the Fall of 2004 and was in the ballot as Measure G in the November 2006 general election. If it were approved, a ¼ cent sales tax increase would have been used to fund the Indoor Sports and Activity Center and the Aquatics Complex, however this measure did not pass.

FINANCIAL INFORMATION, MANAGEMENT AND CONTROL

A detailed understanding of the financial position and operating results of the City is provided in the following sections of this report. The following is a brief description of the City's financial condition, management practices and control techniques.

Basis of Accounting

Basis of accounting refers to the policy as to when revenues, expenditures or expenses are recognized in the financial accounts and reported in the financial statements. The City's accounting records for general government operations are maintained on a modified accrual basis. Revenues are recorded when available and measurable. Expenditures are recorded when the services or goods are received and the liability incurred. For proprietary fund types, the City uses the accrual basis of accounting. As such, the measurement focus is on net income in addition to financial position and changes in financial position. Revenues are recognized when earned and expenses are recognized as the liability is incurred. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Accounting System and Budgetary Control

In developing the City's accounting system, consideration is given to the adequacy of the internal controls. The objective of the City's internal accounting controls is to provide reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; and to ensure that transactions are properly recorded to permit the preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived and that estimates and judgments are required to be made by management in evaluating these costs and benefits.

In addition, the City maintains budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. The City Manager is responsible for the preparation of the budget and its implementation after adoption. The City Council has the authority to amend the budget at any time during the year. The City Manager has the authority to make adjustments to the budget as long as those changes will not have a significant policy impact nor affect budgeted year-end balances. During fiscal year 2005-06, the City Council and City Manager made several supplemental budget appropriations, the majority of which relate to capital projects.

Fund Balance

It is the City's goal to target and maintain an unreserved, undesignated fund balance in the General Fund and working capital balances in the Electric, Water and Wastewater enterprise funds of at least 15% of operating expenditures. This goal allows for variations from year-to-year to account for economic and fiscal changes. The General Fund maintained an unreserved undesignated fund balance of \$3,048,435 or 7.5% of

operating expenditures at the end of fiscal year 2005-06. Fund balance is of concern to the City Council and was addressed during the fiscal year by implementing budget cuts and raising various fees.

Cash Management

The City has written investment policies that address a wide range of investments. These policies describe the City's investment objectives, investment authority, allowable investment vehicles, maturity terms and eligible financial institutions. They also describe the City's capital preservation and cash management objectives. As provided in the policy, investments are intended to be held until maturity and investment terms are to be consistent with the City's cash flow needs. Investment reports are issued both monthly and quarterly to the City Manager and City Council to provide detailed information regarding the City's investments and compliance with City policy and as required by state law. An important objective of the City's investment policy is to achieve a reasonable rate of return on public funds while minimizing risks and preserving capital. In evaluating the performance of the City's investment portfolio, investments are expected to yield a rate of return that regularly meets or exceeds an average rate of return on a three-month U.S. Treasury Bill.

Appropriation Limitation

Article XIII B of the Constitution of the State of California (Proposition 4) provides for the limitation of expenditures by state and local governments. Under the provisions of this article, City appropriations funded through tax sources may not exceed Fiscal Year 1979 appropriation levels except as adjusted for increases in population and the growth in the California per capita income or non-residential assessed valuation due to new construction within the city.

Excluded from the limitation are appropriations funded through charges for services, fines and forfeitures, grants, transfers of service responsibilities between government agencies and indebtedness incurred prior to Fiscal Year 1979. Pursuant to subsequent legislation adopted after Article XIII B, the City is required to annually establish and adopt its appropriations limit by resolution. For 2005-06, the City's appropriations subject to limit were \$31,625,055 and the appropriation limit was \$66,082,118 a favorable variance of \$34,457,063.

Debt Administration

At June 30, 2006, the City had outstanding Certificates of Participation of \$143,492,775. These liabilities are discussed in Note 8 of the Basic Financial Statements and summarized below.

The City issued a \$5.0 million Certificates of Participation (1995) COP to fund its share of capital improvements in the downtown and Cherokee Lane areas. These bonds were refunded by the issuance of the 2002 Certificates of Participation. The City also issued \$1.97 million limited obligation improvement bonds for the Central City Revitalization Assessment District on July 22, 1996. The improvement bonds of the assessment district are not general obligations of the City.

The City also issued \$10.12 million for the renovation of the Performing Arts Center on August 1, 1996; the 2002 Certificates of Participation also refunded these bonds. The Electric Utility issued \$43.96 million Certificates of Participation to finance the costs of certain improvements to the distribution and transmission facilities of the City's electric system. These bonds were also refunded by the issuance of the 2002 Electric Systems Revenue Certificates of Participation.

On November 2002, the City issued the 2002 Revenue Certificates of Participation Series C for \$21,225,000 and 2002 Series D for \$22,740,000, to buy out the energy purchase agreement entered into by the City in January 2002 with Calpine.

On October 21, 2003, the City of Lodi and the City of Fort Bragg issued Water and Wastewater revenue bonds (2003B) through the California Statewide Communities Development Authority ("the Authority") under its pooled financing program. Total bonds issued were \$9,855,000 of which \$5,000,000 was for the upgrade of the City of Lodi's wastewater facilities.

The City issued \$27,360,000 in Wastewater Certificates of Participation (2004A) to finance the costs of improvements to the wastewater collection, treatment and disposal system.

The City's debt management policy includes a commitment to monitor all forms of debt annually during the preparation of the City's Financial Plan and Budget to ensure compliance. Also, the City will generally conduct financing on a competitive basis, will seek an investment grade rating on any direct debt and will obtain credit enhancements such as letters of credit or insurance when necessary for marketing purposes, availability and cost effectiveness.

Interim Financial Reporting

Monthly financial reports are prepared to present the City's financial condition and results of operations. These executive reports are organized using the "pyramid" approach. As such, the highest level of summary data is presented first, followed by progressively greater levels of detail. The reports provide current period and year to date revenues, expenditures and encumbrances for all activities and funds, including year to date estimates and variances.

Single Audit

The City is subject to financial and compliance reporting required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, which is a requirement of all local and state governments receiving federal financial awards. As part of the Single Audit, tests are made to determine the adequacy of internal controls, including that portion related to federal financial awards, as well as to determine that the City has complied with certain applicable laws and regulations governing federal funds. The Single Audit report is published as part of the annual financial statements for easy reference.

Competitive Bidding Policy

All required purchases for materials, equipment and services during 2005-06 were made pursuant to competitive bidding procedures as established under the City's purchasing ordinance. Contracts for construction projects were awarded pursuant to competitive bidding procedures established by the State of California for projects in excess of \$5,000.

Risk Management

The City is self-insured for dental care, workers' compensation, general liability and unemployment insurance. General liability and workers' compensation are administered by outside agencies. The City administers unemployment insurance. Self-insurance transactions are accounted for under the City's Claims and Benefits Fund. At June 30, 2006, the Claims and Benefits Fund had a deficit of \$3,054,636. The City is implementing a phased deficit reduction plan recommended by an actuary to gradually eliminate the deficit in the Internal Service Fund.

INDEPENDENT AUDIT

The City Council requires an annual audit of the records and accounts of the City by an independent certified public accountant. To ensure internal control periodically the City conducts a request for proposal (RFP) process for auditing services. The accounting firm of Macias Gini & O'Connell LLP was selected to perform this audit. The independent auditors' report precedes the basic financial statements and concludes that the City's

basic financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

CERTIFICATES OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. The City did not submit for the California Society of Municipal Finance Officers (CSMFO) award program last year. These Certificates of Achievement are prestigious national and state awards recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last thirteen consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements and we are submitting it to GFOA this year.

ACKNOWLEDGMENTS

As always the professionalism, dedication and efficiency of the Finance Department Accounting staff made it possible for the timely preparation of this report and are to be commended. I would also like to personally thank Ruby Paiste, Financial Services Manager, and Cory Wadlow, Senior Accountant, Odette Bondoc, Accountant II and Tyson Mordhorst, Senior Programmer Analyst. Their work in preparing this year's CAFR is greatly appreciated.

I would also like to thank you for your continued interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



James R. Krueger
Deputy City Manager/Internal Services Director/Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lodi
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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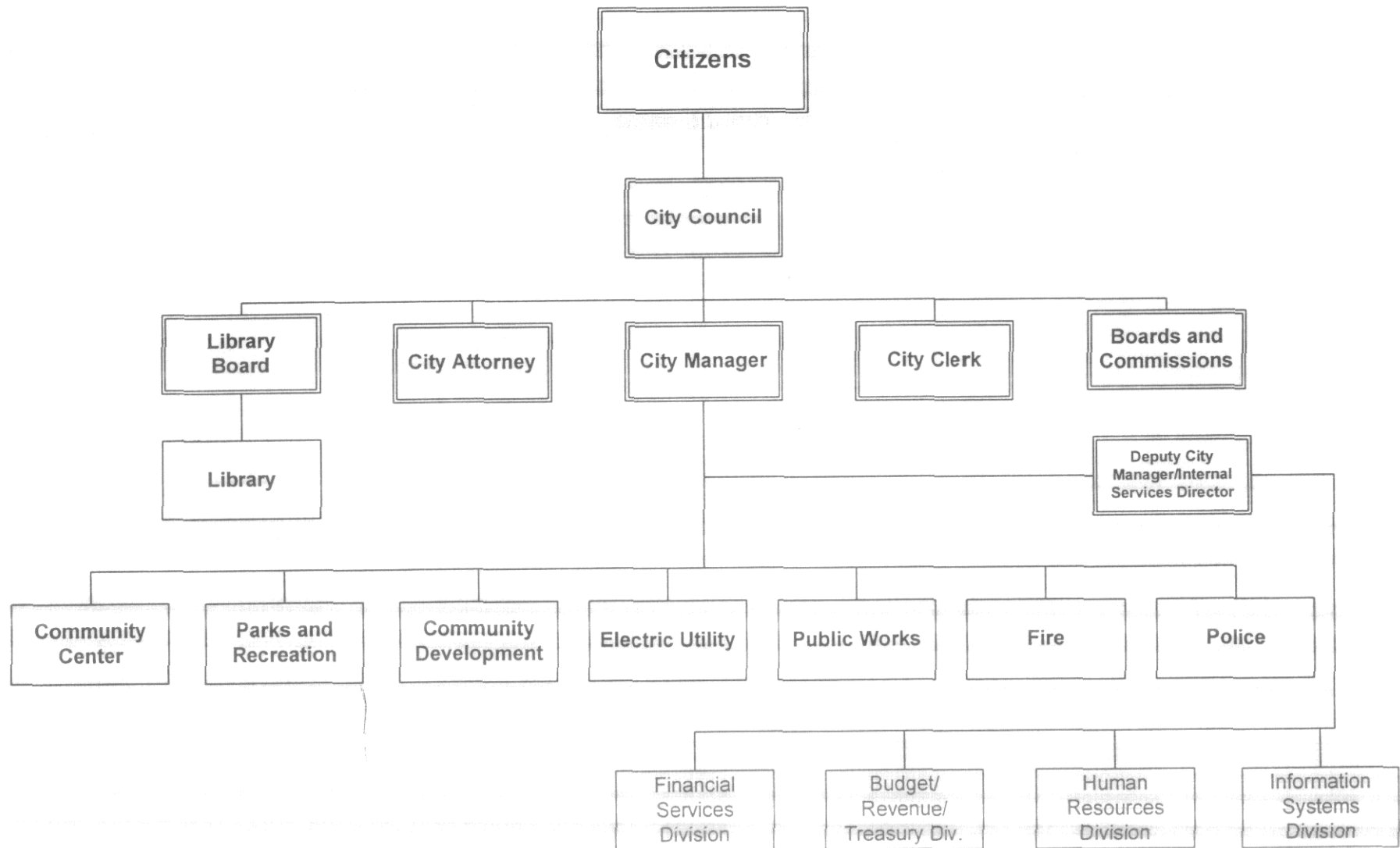


President

Executive Director

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City of Lodi



DIRECTORY OF OFFICIALS AND ADVISORY BODIES

CITY COUNCIL

Susan Hitchcock
Bob Johnson
John Beckman
Larry Hansen
Joanne Mounce

Mayor
Mayor Pro Temp
Council Member
Council Member
Council Member

ADVISORY BODIES

Planning Commission
Library Board
Recreation Commission
Site Plan and Architectural Review Committee
Budget Committee

Eastside Improvement Committee
Lodi Arts Commission
Youth Commission
Lodi Senior Citizens' Commission

PRINCIPAL ADMINISTRATIVE OFFICERS

Blair King
Steve Schwabauer
Randi Johl
Nancy Martinez
James Krueger
Mike Pretz
Steve Baker
Richard Prima
George Morrow
Randy Hatch
Jerry Adams
Tony Goehring

City Manager
City Attorney
City Clerk
Library Services Director
Dep. City Mgr/Internal Services Dir/Treasurer
Fire Chief
Interim Community Center Director
Public Works Director
Electric Utility Director
Community Development Director
Police Chief
Parks & Recreation Director

FINANCIAL SECTION

The Financial Section is comprised of the Independent Auditors' Report, Management Discussion and Analysis, Basic Financial Statements, including the notes, required Supplementary Information, and Supplementary Information which includes Combining and Individual Fund Statements and Schedules.

The Honorable Members of City Council
City of Lodi, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lodi, California (City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the schedule of funding progress – pension plan, and schedules of revenues, expenditures and changes in fund balance – budget and actual – for the General Fund and Streets Fund are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
November 22, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the *Comprehensive Annual Financial Report* is presented as discussion and analysis of the financial performance of the City of Lodi (the City) for the fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

- The assets of the City of Lodi exceeded its liabilities at the close of the 2006 fiscal year by \$207,603,383 (net assets). Of this amount, \$6,957,868 is a deficit in *unrestricted net assets*, needed to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$19,181,981 in fiscal year 2006.
- As of June 30, 2006, the City's governmental funds reported combined ending fund balances of \$17,440,628, an increase of \$2,756,525 in comparison with the prior year. Of this amount, \$14,982,440 is available for spending at the City's discretion (unreserved fund balance).
- At the close of the fiscal year, fund balance for the general fund was \$4,368,941 or 10.7 % of total general fund expenditures of \$40,849,877.
- The City's total long-term debt decreased by \$1,584,851(1.1%) during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the Financial Statements. This report also includes other **supplementary information** in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as **net assets**. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through users fees and charges (business-type activities). The governmental activities of the City include general government, public protection, public works, community development, library, and parks and recreation. The business-type activities of the City include electric operations, wastewater system, water operations and public transit.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: Governmental funds, Proprietary funds, and Fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds. These statements, however, focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in determining financial resources available in the near future to finance City programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds organized according to their type (special revenue, capital projects and debt service). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and the streets fund, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for its general fund and special revenue funds. Budgetary comparison statements have been provided for the general fund and the special revenue funds to demonstrate compliance with this budget.

Proprietary Funds. Proprietary funds are generally used to account for services for which the City charges customers-either outside customers, or internal units or departments of the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Electric, Wastewater, Water, all of which are considered to be major funds and the Transit system, which is considered to be a nonmajor proprietary fund.

- **Internal Service fund** is used to report activities that account for various employee benefits and self-insurance activities of the City. Because these activities predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The activities of the Downtown and Cherokee Lane special assessments, the Industrial Way-Beckman special assessment and various landscape and lighting districts are accounted for and reported under the fiduciary funds. The activities of the Private Sector trust and the Holz bequest are also accounted for under the fiduciary funds. Since the resources of this fund are not available to support the City's own programs, it is not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees, and a schedule comparing budget to actual amounts in the General Fund and Streets Fund.

Combining Statements

The combining statements in connection with non-major governmental funds and fiduciary funds are presented immediately following the required supplementary information on pensions.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City of Lodi assets exceeded liabilities by \$207,603,383 at the close of the current fiscal year.

The largest portion of the City's net assets reflects its investment in capital assets net of any associated depreciation (e.g., land, buildings and improvements, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Lodi's Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets:						
Current and other assets	\$ 26,306,575	23,020,354	85,587,439	83,430,392	\$ 111,894,014	106,450,746
Capital assets	<u>137,535,891</u>	<u>133,148,186</u>	<u>136,816,229</u>	<u>125,103,772</u>	<u>274,352,120</u>	<u>258,251,958</u>
Total assets	<u>163,842,466</u>	<u>156,168,540</u>	<u>222,403,668</u>	<u>208,534,164</u>	<u>386,246,134</u>	<u>364,702,704</u>
Liabilities:						
Long-term liabilities outstanding	42,911,609	41,302,639	123,232,209	124,657,175	166,143,818	165,959,814
Other liabilities	<u>3,670,776</u>	<u>3,908,832</u>	<u>8,828,157</u>	<u>6,412,656</u>	<u>12,498,933</u>	<u>10,321,488</u>
Total liabilities	<u>46,582,385</u>	<u>45,211,471</u>	<u>132,060,366</u>	<u>131,069,831</u>	<u>178,642,751</u>	<u>176,281,302</u>
Net assets:						
Invested in capital assets, net of related debt	111,572,441	106,292,681	77,493,888	67,667,955	189,066,329	173,960,636
Restricted	14,525,637	13,465,723	10,969,285	2,350,888	25,494,922	15,816,611
Unrestricted	<u>(8,837,997)</u>	<u>(8,801,335)</u>	<u>1,880,129</u>	<u>7,445,490</u>	<u>(6,957,868)</u>	<u>(1,355,845)</u>
Total net assets	\$ <u>117,260,081</u>	<u>110,957,069</u>	<u>90,343,302</u>	<u>77,464,333</u>	\$ <u>207,603,383</u>	<u>188,421,402</u>

An additional portion of the City's net assets, \$25,494,922 (12.28%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted assets represents a deficit of \$6,957,868. At the end of the current fiscal year, the City is able to report positive balances in the two categories of net assets for the government as a whole. Unrestricted net assets are negative for the governmental activities. The deficit in unrestricted net assets in the governmental activities at the end of the year was \$8,837,997 primarily due to the accrual of compensated absences for \$9,865,159 and the inclusion of the internal service fund in the governmental activities that had negative net assets of \$3,054,636.

Refer to pages 8-9 for analysis of the business-type activities and internal service fund negative unrestricted net assets.

City of Lodi's Changes in Net Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program revenues:						
Charges for services	\$ 4,717,215	5,604,193	76,768,433	70,046,788	\$ 81,485,648	75,650,981
Operating grants and contributions	2,586,677	2,194,994	3,376,995	2,730,943	5,963,672	4,925,937
Capital grants and contributions	14,630,848	17,558,575	11,145,804	3,401,579	25,776,652	20,960,154
General revenues:						
Property taxes	8,030,641	7,124,388			8,030,641	7,124,388
Other taxes	10,063,090	10,252,443			10,063,090	10,252,443
Grants and contributions not restricted to specific programs	14,214,678	13,192,542			14,214,678	13,192,542
Litigation - environmental lawsuits proceeds			6,700,399	9,149,692	6,700,399	9,149,692
Other	1,340,239	758,278	4,063,465	4,312,412	5,403,704	5,070,690
Total revenues	<u>55,583,388</u>	<u>56,685,413</u>	<u>102,055,096</u>	<u>89,641,414</u>	<u>157,638,484</u>	<u>146,326,827</u>
Expenses						
General government	9,746,613	9,957,816			9,746,613	9,957,816
Public protection	22,104,641	22,252,819			22,104,641	22,252,819
Public works	13,228,998	12,376,743			13,228,998	12,376,743
Community development	2,290,412				2,290,412	
Library	1,484,793	1,484,470			1,484,793	1,484,470
Parks and recreation	4,113,772	4,565,240			4,113,772	4,565,240
Interest on long-term debt	1,233,982	1,616,501			1,233,982	1,616,501
Electric			63,779,870	57,308,243	63,779,870	57,308,243
Wastewater			8,574,212	10,652,509	8,574,212	10,652,509
Water			8,256,175	11,748,462	8,256,175	11,748,462
Transit			3,643,035	3,017,821	3,643,035	3,017,821
Total expenses	<u>54,203,211</u>	<u>52,253,589</u>	<u>84,253,292</u>	<u>82,727,035</u>	<u>138,456,503</u>	<u>134,980,624</u>
Changes in net assets before special items and transfers	1,380,177	4,431,824	17,801,804	6,914,379	19,181,981	11,346,203

Special item – forgiveness of debt				15,276,708		15,276,708
Transfers	4,922,835	4,007,810	(4,922,835)	(4,007,810)		
Changes in net assets	6,303,012	8,439,634	12,878,969	18,183,277	19,181,981	26,622,911
Net assets at beginning of year	110,957,069	102,517,435	77,464,333	59,281,056	188,421,402	161,798,491
Net assets at end of year	\$ 117,260,081	110,957,069	90,343,302	77,464,333	\$ 207,603,383	188,421,402

ANALYSIS OF CHANGES IN NET ASSETS

Governmental activities.

Governmental activities increased the City's net assets by \$6,303,012 or 33% of the total increase in the City's net assets.

The key factors impacting the change in net assets are:

- Moderate revenue growth
- Slow down on new residential developments
- Increased assessed valuations due to growth in new homes and the strong resale market
- Significant restraint in spending.

Charges for services decreased by 16%, a net amount of \$886, 978 from the prior fiscal year largely from development related fees essentially due to slowing down of new residential developments.

- Construction permits decreased by \$514,823 or 35%
- Planning and engineering inspection fees decreased by \$263,513 or 30%

Operating grants and contributions increased by \$391,683 or 18% mainly from funds received for State mandated costs totaling \$510,868 compared to \$2,980 from prior fiscal year. The State previously suspended reimbursements in prior years due to lack of funding.

Capital grants and contributions decreased by \$2,927,727 or 17% from prior fiscal year. This was also substantially the effect of the slow down in new developments. Development impact fees collected this year decreased by \$5,394,142 or 81%. Street projects reimbursed by Measure K also decreased by \$570,587. These were offset by the increase of \$2,071,861 in the contribution of capital assets from developers and the receipt of Traffic Congestion Relief funds totaling \$727, 886 from the State, which were also suspended in prior years due to lack of funding.

The City's governmental activities also realized the following revenue increases:

- Property taxes - \$906,253 – 13%
- Sales and use taxes - \$628,787 – 7%
- Motor Vehicle license fees - \$788,259 -22%

Other revenues also increased by \$581,961 or 77% from miscellaneous reimbursements and charges.

Expenses for governmental functions totaled \$54,203,211, an increase of \$1,949,622 from the prior fiscal year. This largely reflects the net increase in the actuarial estimates for the reserves required for general liability and workers compensation included in general government and the transfer of expenditures to community development.

Business-type activities.

Business-type activities increased the City's net assets by \$12,878,969 or 67% of the total increase in the City's net assets. The key elements of this increase are:

- Contributions of capital assets from developers:

Electric Fund - \$145,403
Wastewater Fund - \$5,796,832
Water Fund - \$4,857,467

- Proceeds from litigation settlements - \$6,700,399

The City also implemented a market cost adjustment (MCA) for Electric Utility effective December 2, 2005, at an average of 17.67% to offset the increase of purchased power expenses resulting in increased operating revenue of \$5,204,454 or 10% from prior fiscal year. Wastewater and water rates were also increased during the year resulting in increased operating revenues of \$840,876 or 10% in Wastewater Utility; and \$629,647 or 8% in Water Utility.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds.

The focus of the City of Lodi's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's *financing requirements*. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, special revenue funds, debt service funds and capital projects funds.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$17,440,628, an increase of \$2,756,525 in comparison to the prior year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3,048,435, while total fund balance was \$4,368,941, an increase of \$1,676,611 from prior year. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 7.0% of total general fund expenditures.

In the Streets Fund, total fund balance was \$6,037,910. Decreases in charges for services were offset by the decrease in capital expenditures resulting in an increase of \$1,063,174 to fund balance compared to the prior year.

Governmental fund balances have increased for the last two years as a result of continued spending restraint and the receipt of unexpected revenues from the State of California which includes reimbursements for mandated costs and receipts of more than expected vehicle license fees.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year for the Electric Fund were (\$1,899,386), Wastewater Fund \$1,895,503, Water Fund \$614,694 and Transit Fund \$1,269,318.

The Internal Service Fund is reporting a deficit in unrestricted net assets as a result of the City not fully funding its self-insurance activities. The City plans to implement the deficit reduction plan recommended by an actuary to gradually eliminate the deficit in the Internal Service Fund.

Other factors concerning the finances of these funds are discussed in the City of Lodi's business-type activities.

General Fund Budgetary Highlights

Significant differences between the original operating budget and the final amended operating budget in the General Fund were a net increase in appropriation of \$558,648. The increase in appropriations can be briefly summarized as follows:

- \$279,301 increase in general government
- \$150,027 increase in public protection
- \$116,642 increase in public works
- \$1,994 increase in library
- \$10,684 increase in parks and recreation

Significant differences between the final budget and the actual revenues and expenditures can be briefly summarized as follows:

- Intergovernmental revenues – a favorable variance of \$1,305,439 was largely due to the increase Vehicle License Fees received in the amount of \$788,259 and the reimbursement of state mandated costs not previously funded by the State in the amount of \$508,168.
- Charges for services- Plan check fees and planning fees are now accounted for in the special revenue fund. These revenues were previously accounted for in the General Fund.
- For expenditures, a favorable variance between the final budget and actual expenditures of \$1,703,151 was due to savings from several vacancies and the continued overall effort to reduce spending and costs.

Capital Assets and Debt Administration

Capital assets.

The City of Lodi's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$274,352,120 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, vehicles, infrastructure and construction in progress. The total increase in the City of Lodi's investment in capital assets for the current fiscal year was 6.23% (a 3.3% increase in governmental activities and 9.36% increase in business-type activities) as shown in the table below.

Changes in Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 24,016,374	\$ 23,798,811	\$ 5,247,806	\$ 5,247,806	\$ 29,264,180	\$ 29,046,617
Buildings and Improvements	39,284,078	40,323,027	26,390,168	27,253,059	65,674,246	67,576,086
Machinery and Equipment	1,080,497	1,257,058	83,489,707	69,865,611	84,570,204	71,122,669
Vehicles	1,741,279	2,251,552	1,988,516	2,430,020	3,729,795	4,681,572
Infrastructure	68,151,049	61,081,916			68,151,049	61,081,916
Work of Art	62,024	62,024			62,024	62,024
Construction in Progress	3,200,590	4,373,798	19,700,032	20,307,276	22,900,622	24,681,074
Total	<u>\$ 137,535,891</u>	<u>\$ 133,148,186</u>	<u>\$ 136,816,229</u>	<u>\$ 125,103,772</u>	<u>\$ 274,352,120</u>	<u>\$ 258,251,958</u>

A significant increase in infrastructure compared to prior year was primarily due to additional streets built by residential development completed in fiscal year 2005-06.

The increase in machinery and equipment and construction in progress in wastewater was due primarily to improvements to the White Slough Water Pollution Control Facility.

Additional information on the City of Lodi's capital assets can be found in note 6 on pages 40-42 of this report.

Long-term debt.

At the end of the current fiscal year, the City of Lodi had total bonded debt outstanding of \$143,492,775. Of this amount, \$24,510,000 is the outstanding balance of the bonds issued to fund the new public safety building, refinancing of the performing arts center and the downtown and Cherokee Lane improvements. The total of \$118,982,775 from the business-type activities consists of \$40,097,313 for the Wastewater Fund; and \$78,885,462 for the Electric Fund.

City of Lodi's Outstanding Debt

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>activities</u>	<u>Total</u>
Certificates of Participation	\$ 24,510,000	118,982,775	143,492,775

The City of Lodi's total bonded debt decreased by \$1,584,851 (1.1%) during the current fiscal year.

Bond Rating.

In response to a review of interim financial results, Fitch Rating services changed the rating on outstanding electric utility debt instruments from BBB+ to BBB-. In light of more favorable financial results as reflected in the full year financial results as compared to the interim results, City Management is hopeful that Fitch Ratings Services will reconsider its downgrade.

Additional information on the City of Lodi's long-term debt can be found in note 8 on pages 43-55 of this report.

Economic factors and next year's budget.

The City faced significant budget challenges in the last two fiscal years. As a result of downward economic trends and personnel expenditures, which were increasing at a pace that outstripped the resources available to fund these expenditures, the City faced an operating deficit in the General Fund for fiscal year 2004-05 and fiscal year 2005-06. Deficits for both years were eliminated and operating revenues exceeded operating expenditures in both years as a result of reductions in budgeted expenditures of approximately \$2.0 million in both fiscal years. The budget for fiscal year 2006-07 incorporates sustaining these same levels of expenditure reductions in all departments except for the Police and Fire Departments, which have filled positions that were left vacant in the prior two fiscal year budgets.

The budget for fiscal year 2006-07 incorporates sustaining these same levels of expenditure reductions in all departments except for the Police and Fire Departments, which have filled positions that were left vacant in the prior two fiscal year budgets. The primary growth in expenditures in the fiscal year 2006-07 budget results from filling these public safety positions. General tax revenues are estimated to increase sufficiently to offset the impact on the budget of filling these positions.

The Electric Utility budget for 2005-06 was adopted with expenditures exceeding revenues by approximately \$8.2 million. Most of this deficit was alleviated through a combination of rate increases approved by resolution of the City Council in November 2005. In addition, vacancies and reductions in operational expenditures helped to reduce most of this deficit. However, the Electric Utility still incurred an operating loss in fiscal year 2005-06. Burgeoning energy purchase costs caused the total budget to rise to \$66.8 million in 2005-06. The Electric Utility budget for fiscal year 2006-07 is balanced at \$70.6 million, which is an increase of approximately 5.6% from fiscal year 2005-06. The rate increases approved in November 2005, will result in more than \$10 million in additional revenues in fiscal year 2006-07 and subsequent years. The rate increases in conjunction with other cost cutting measures will be used to keep the cash balances at the same level in fiscal year 2006-07.

Economic Development

There are two major developments in process in Lodi at the time of this report. The Reynolds Ranch development on the southern end of the city will provide approximately 500 jobs to the community within the next two years. Blue Shield of California will be located in this

development and other businesses will be located around the Blue shield facilities. The additional jobs and the expanded economic activity from the commercial development in this project will provide needed additional property and sales tax revenues to the City's revenue base. Additionally, the development plans include approximately 1,000 new residences to be built. This will add to significantly to the City's property tax base.

On the west end of town the Southwest Gateway and West End development projects are in the planning stages of development. Frontier Community Builders (FCB) is the developer in these projects and has been involved in building many new neighborhoods in the City of Lodi. Both of these projects could add as many as 2,000 new residences to the city.

Both of these projects include development agreements that will provide for public facilities to be contributed as the development proceeds. This as well as Impact Development Fees will allow for the provision of public facilities that would otherwise need to be funded with General Fund revenue sources. Development agreements have not been used by the City to provide for public improvements in the past. Housing market factors will affect the timing of when the residences will be built, but it is anticipated that both projects will proceed over the course of the next 15-20 years.

REQUEST FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Financial Services Division of the City of Lodi at 300 W. Pine Street, Lodi, California, 95240.

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BASIC FINANCIAL STATEMENTS

The Government-wide Financial Statements provide a broad overview of the City's financial position and operating results. Information is grouped by governmental activities or business-type activities.

The Fund Financial Statements report information about the City's Governmental Funds, Proprietary Funds, and the Fiduciary Fund.

The notes have an integral role in disclosing information essential to the fair presentation of the Basic Financial Statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LODI
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 16,978,883	10,646,448	\$ 27,625,331
Restricted assets	1,697,469	34,001,572	35,699,041
Accounts receivable, net	3,372,945	7,623,045	10,995,990
Property tax receivable	1,629,396		1,629,396
Interest receivable	63,938	70,288	134,226
Internal balances	(1,225,173)	1,225,173	
Due from other governmental agencies	2,541,936	17,902	2,559,838
Loan receivable	1,084,000		1,084,000
Advance receivable		3,165,581	3,165,581
Inventory	123,298	1,663,660	1,786,958
Other assets	39,883	6,608	46,491
Deferred charges		27,167,162	27,167,162
Capital assets, net:			
Nondepreciable	27,278,988	24,947,838	52,226,826
Depreciable, net	110,256,903	111,868,391	222,125,294
TOTAL ASSETS	163,842,466	222,403,668	386,246,134
LIABILITIES			
Accounts payable and accrued liabilities	2,054,443	5,103,780	7,158,223
Accrued salaries and wages	1,329,190		1,329,190
Accrued interest	287,143	2,453,257	2,740,400
Unearned revenue		1,271,120	1,271,120
Long-term liabilities:			
Due within one year	5,728,516	6,483,318	12,211,834
Due in more than one year	37,183,093	116,748,891	153,931,984
TOTAL LIABILITIES	46,582,385	132,060,366	178,642,751
NET ASSETS			
Invested in capital assets, net of related debt	111,572,441	77,493,888	189,066,329
Restricted for:			
Capital projects	12,260,708		12,260,708
Debt service	1,697,469	2,280,112	3,977,581
Other purposes	567,460	8,689,173	9,256,633
Unrestricted (deficit)	(8,837,997)	1,880,129	(6,957,868)
TOTAL NET ASSETS	\$ 117,260,081	90,343,302	\$ 207,603,383

The notes to the financial statements are an integral part of this statement.

**CITY OF LODI
STATEMENT OF ACTIVITIES
Year ended June 30, 2006**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government	\$ 9,746,613	1,232,354	518,368	121,955	(7,873,936)		\$ (7,873,936)
Public protection	22,104,641	563,135	721,864	181,179	(20,638,463)		(20,638,463)
Public works	13,228,998	319,772	1,040,644	14,034,402	2,165,820		2,165,820
Community development	2,290,412	1,629,874	-	3,068	(657,470)		(657,470)
Library	1,484,793	53,878	88,683	-	(1,342,232)		(1,342,232)
Parks & recreation	4,113,772	918,202	217,118	290,244	(2,688,208)		(2,688,208)
Interest on long-term debt	1,233,982				(1,233,982)		(1,233,982)
Total governmental activities	54,203,211	4,717,215	2,586,677	14,630,848	(32,268,471)		(32,268,471)
Business-type activities:							
Electric	63,779,870	59,112,587		145,403		(4,521,880)	(4,521,880)
Wastewater	8,574,212	8,926,604	32,879	6,045,273		6,430,544	6,430,544
Water	8,256,175	8,342,990	-	4,944,822		5,031,637	5,031,637
Transit	3,643,035	386,252	3,344,116	10,306		97,639	97,639
	84,253,292	76,768,433	3,376,995	11,145,804		7,037,940	7,037,940
Total primary government	\$ 138,456,503	81,485,648	5,963,672	25,776,652	(32,268,471)	7,037,940	\$ (25,230,531)
General revenues:							
Taxes:							
Property taxes					8,030,641	-	8,030,641
Franchise taxes					8,721,495	-	8,721,495
Business license tax					973,430	-	973,430
Transient occupancy tax					368,165	-	368,165
Grants and contributions not restricted to specific programs					14,214,678	-	14,214,678
Investment earnings					327,716	2,007,462	2,335,178
Litigation - environmental lawsuits proceeds						6,700,399	6,700,399
Other					1,012,523	2,056,003	3,068,526
Transfers					4,922,835	(4,922,835)	
Total general revenues and transfers					38,571,483	5,841,029	44,412,512
Change in net assets					6,303,012	12,878,969	19,181,981
Net assets, beginning of year					110,957,069	77,464,333	188,421,402
Net assets, end of year					\$ 117,260,081	90,343,302	\$ 207,603,383

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

Governmental Fund Types

Governmental funds consist of the General Fund, special revenue funds, debt service fund and capital projects funds.

Major Governmental Funds include:

General Fund

This fund is maintained to account for all financial resources that are not restricted as to their use. This includes property and sales taxes, business tax receipts, franchise taxes and various subventions such as Motor Vehicle In-Lieu fees received from the State of California. With the exception of grant programs, General Fund resources can be utilized for any legitimate governmental purpose.

Streets Fund

This fund was established to account for the following:

Gas Tax

To account for revenues and expenditures apportioned to the City under the Streets and Highway Code. Portions of the tax rate levied by the State of California on all gasoline purchases are allocated to cities throughout the State on a population basis. These funds are restricted for expenditure by the State of California for street related purposes only.

Development Impact Mitigation Fees

To account for impact fees charged to provide for the building of various storm drains and street improvements needed to serve new development. The fees are calculated on a per acre basis and are collected at subdivision final map approval or with building permit stage effective November 4, 1991.

Measure K Sales Tax

To account for revenues and expenditures apportioned to the City for sales tax collections under Measure K. Expenditures for administration, maintenance and construction must be for street-related projects.

Intermodal Surface Transportation Efficiency Act (ISTEA)

To account for revenues from the federal highway administration for programs including surface transportation program (STP) for streets and roads, congestion mitigation and air quality program (CMAQ) and hazard elimination safety (HES) for street lighting projects.

Proprietary Fund Types

Proprietary funds consist of the enterprise funds and the internal service funds.

Major Enterprise Funds include:**Electric Fund**

The City established this fund in order to account for the provision of electric services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including but not limited to, source of supply, overhead, systems maintenance, customer service, engineering, administration, capital improvements maintenance and debt service.

Sewer Fund

This fund was established by the City in order to account for the provision of waste water collection and treatment services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, improvements and debt service.

Water Fund

This fund was established by the City in order to account for the provision of water to the residents of the City as well as some customers in the County. All activities to provide such services are accounted for in this fund,

including, but not limited to administration, operations, distribution, maintenance, capital improvements and debt service.

Nonmajor Enterprise Fund:

Transit Fund

This fund is used to account for the operations of the Dial-A-Ride and the Grapeline bus system.

Fiduciary Fund Type

Private-purpose Trust Funds

These funds are used to account for assets held by the Library Board as trustee of the Lodi Public Library and for assets held by the City in accordance with the trust agreement on behalf of the Hutchins Street Square.

Agency Fund

This fund was established to account for special assessments collected on the property tax roll by the City on behalf of the property owners within the Industrial Way Beckman Districts and the Downtown and Cherokee Lane Districts and various landscape and lighting districts around the City.

**CITY OF LODI
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006**

	General Fund	Streets Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 1,847,871	4,900,633	6,169,963	\$ 12,918,467
Restricted assets			1,697,469	1,697,469
Receivables:				
Accounts, net	3,138,365	197,178	37,402	3,372,945
Property taxes	1,629,396			1,629,396
Interest	7,227	21,725	23,243	52,195
Due from other funds		541,543		541,543
Due from other governmental agencies	479,871	1,121,796	940,269	2,541,936
Loan receivable			1,084,000	1,084,000
Inventory	123,298			123,298
Advances to other funds	261,880		636,770	898,650
Other assets	22,157		6,019	28,176
Total assets	<u>\$ 7,510,065</u>	<u>6,782,875</u>	<u>10,595,135</u>	<u>\$ 24,888,075</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other liabilities	\$ 1,811,934	108,195	78,812	\$ 1,998,941
Accrued salaries and wages	1,329,190			1,329,190
Due to other funds			541,543	541,543
Advances from other funds		636,770	1,487,053	2,123,823
Deferred revenue			1,453,950	1,453,950
Total liabilities	<u>3,141,124</u>	<u>744,965</u>	<u>3,561,358</u>	<u>7,447,447</u>
Fund balances :				
Reserved for library	659,023			659,023
Reserved for encumbrances	276,305	300,503	200,409	777,217
Reserved for inventory	123,298			123,298
Reserved for advances to other funds	261,880		636,770	898,650
Reserved	1,320,506	300,503	837,179	2,458,188
Unreserved reported in:				
General Fund	3,048,435			3,048,435
Special revenue funds		5,737,407	533,228	6,270,635
Capital projects funds			5,663,370	5,663,370
Total fund balances	<u>4,368,941</u>	<u>6,037,910</u>	<u>7,033,777</u>	<u>17,440,628</u>
Total liabilities and fund balances	<u>\$ 7,510,065</u>	<u>6,782,875</u>	<u>10,595,135</u>	<u>\$ 24,888,075</u>

CITY OF LODI
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balances - total governmental funds	\$ 17,440,628
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	
Nondepreciable capital assets	27,278,988
Depreciable capital assets, net	110,256,903
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds as follows:	
Compensated absences	(9,865,159)
Long-term debt	(25,963,450)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due	(287,143)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	1,453,950
Internal service fund is used by management to charge the costs of general liability insurance, workers' compensation insurance, health benefits insurance and other insurance to individual funds. The assets of the internal service fund is included in governmental activities in the statement of net assets	(3,054,636)
Net assets of governmental activities	\$ <u>117,260,081</u>

CITY OF LODI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended June 30, 2006

	General Fund	Streets Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 18,093,733			\$ 18,093,733
Licenses and permits	71,125		948,720	1,019,845
Intergovernmental revenues	15,620,997	8,328,848	1,541,185	25,491,030
Charges for services	1,823,583	827,693	1,196,808	3,848,084
Fines, forfeits and penalties	1,161,304		11,275	1,172,579
Investment and rental income	376,971	126,578	203,508	707,057
Miscellaneous revenue	319,815	260,145	73,223	653,183
Total revenues	<u>37,467,528</u>	<u>9,543,264</u>	<u>3,974,719</u>	<u>50,985,511</u>
Expenditures:				
Current:				
General government	8,344,970			8,344,970
Public protection	20,686,173		176,983	20,863,156
Public works	6,577,776		1,248,738	7,826,514
Community development			1,846,498	1,846,498
Library	1,468,178			1,468,178
Parks and recreation	3,434,361		6,109	3,440,470
Capital outlay		6,817,404	414,694	7,232,098
Debt service:				
Interest and fiscal charges	56,026		1,181,856	1,237,882
Principal payments	282,393		609,662	892,055
Total expenditures	<u>40,849,877</u>	<u>6,817,404</u>	<u>5,484,540</u>	<u>53,151,821</u>
Excess (deficiency) of expenditures over (under) revenues	<u>(3,382,349)</u>	<u>2,725,860</u>	<u>(1,509,821)</u>	<u>(2,166,310)</u>
Other financing sources (uses):				
Transfers in	6,892,824		2,248,909	9,141,733
Transfers out	(1,833,864)	(1,662,686)	(722,348)	(4,218,898)
Total other financing sources (uses)	<u>5,058,960</u>	<u>(1,662,686)</u>	<u>1,526,561</u>	<u>4,922,835</u>
Net change in fund balances	1,676,611	1,063,174	16,740	2,756,525
Fund balances, beginning of year	<u>2,692,330</u>	<u>4,974,736</u>	<u>7,017,037</u>	<u>14,684,103</u>
Fund balances, end of year	<u>\$ 4,368,941</u>	<u>6,037,910</u>	<u>7,033,777</u>	<u>\$ 17,440,628</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LODI
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2006

Amounts reported for governmental activities are different because:

Net change in fund balances - total governmental funds	\$	2,756,525
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays, capital contributions and depreciation expense are as follows:

Capitalized capital outlays		7,232,098
Capital contributions		4,617,877
Depreciation expense		(7,462,270)

Long-term debt proceeds, net of discounts, provide current financial resources to governmental funds, but issuing debt proceeds increases long-term liabilities in the statement of net assets. Repayments of the principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets.

Repayments of principal are as follows:

Capital leases		282,393
Certificates of participation principal		520,000
Loan principal		89,662

Internal service fund is used by management to charge the costs of certain activities, such as health benefits and self-insurance, to individual funds. The net revenue (expenses) of internal service fund is reported with governmental activities.

(1,159,148)

Deferred revenues recognized in the funds that were previously recognized in the statement of activities

(20,000)

Other expenses in the statement of activities that do not use current financial resources are not reported as expenditures in the governmental funds.

Change in compensated absences		(558,025)
Change in accrued interest		3,900

Change in net assets of governmental activities	\$	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">6,303,012</div>
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CITY OF LODI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	Business-type Activities-Enterprise Funds					Governmental Activities - Internal Service Fund
	Electric	Wastewater	Water	Nonmajor Fund Transit	Total	
ASSETS						
Current assets:						
Cash and Investments	\$ 6,982,097	1,866,805	946,119	851,427	\$ 10,646,448	\$ 4,060,416
Restricted cash and investments			8,543,685		8,543,685	
Restricted assets with fiscal agents	10,529,239	14,627,909	300,739		25,457,887	
Receivables:						
Accounts, net	5,062,727	1,329,453	631,862	599,003	7,623,045	
Interest	22,922	8,567	38,799		70,288	11,743
Due from other governmental agencies		17,902			17,902	
Advance receivable	3,165,581				3,165,581	
Inventory	1,466,604	13,714	183,342		1,663,660	
Other assets	1,358	3,975	1,275		6,608	11,707
Total current assets	27,230,528	17,868,325	10,645,821	1,450,430	57,195,104	4,083,866
Noncurrent assets:						
Advances to other funds			1,225,173		1,225,173	
Deferred charges and other assets	26,384,363	782,799			27,167,162	
Capital assets, net:						
Nondepreciable	4,465,269	17,963,532	1,468,555	1,050,482	24,947,838	
Depreciable, net	34,581,995	43,718,598	22,402,350	11,165,448	111,868,391	
Total capital assets	39,047,264	61,682,130	23,870,905	12,215,930	136,816,229	
Total noncurrent assets	65,431,627	62,464,929	25,096,078	12,215,930	165,208,564	
TOTAL ASSETS	92,662,155	80,333,254	35,741,899	13,666,360	222,403,668	4,083,866
LIABILITIES						
Current liabilities:						
Accounts payable and other liabilities	2,960,468	478,733	1,486,443	178,136	5,103,780	55,502
Accrued interest	1,822,574	612,929	17,754		2,453,257	
Unearned revenue		102,902	1,168,218		1,271,120	
Self-insurance liability						1,512,368
Accrued compensated absences	345,706	205,890	10,358	2,976	564,930	
Certificates of participation payable	4,433,948	1,325,904			5,759,852	
Water note payable			158,536		158,536	
Total current liabilities	9,562,696	2,726,358	2,841,309	181,112	15,311,475	1,567,870
Noncurrent liabilities:						
Self-insurance liability						5,570,632
Accrued compensated absences	850,500	727,258	29,842		1,607,600	
Certificates of participation payable	74,451,514	38,771,408			113,222,922	
Water note payable			1,918,369		1,918,369	
Total noncurrent liabilities	75,302,014	39,498,666	1,948,211		116,748,891	5,570,632
TOTAL LIABILITIES	84,864,710	42,225,024	4,789,520	181,112	132,060,366	7,138,502
NET ASSETS (DEFICIT)						
Invested in capital assets, net of related debt	9,548,262	33,935,696	21,794,000	12,215,930	77,493,888	
Restricted:						
Debt service	3,081	2,277,031			2,280,112	
Other purposes	145,488		8,543,685		8,689,173	
Unrestricted (deficit)	(1,899,386)	1,895,503	614,694	1,269,318	1,880,129	(3,054,636)
TOTAL NET ASSETS (DEFICIT)	\$ 7,797,445	38,108,230	30,952,379	13,485,248	\$ 90,343,302	\$ (3,054,636)

CITY OF LODI
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year ended June 30, 2006

	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Fund
	Electric	Wastewater	Water	Nonmajor Fund Transit	Total	
OPERATING REVENUES						
Charges for services	\$ 59,112,587	8,926,604	8,342,990	386,252	\$ 76,768,433	\$ 7,387,092
OPERATING EXPENSES						
Personnel services	4,930,326	2,163,754	1,047,461	105,856	8,247,397	330,282
Supplies, materials and services	8,115,096	1,998,725	5,522,351	2,929,991	18,566,163	4,905,504
Utilities	41,237,551	723,387	683,763	46,810	42,691,511	
Depreciation and amortization	5,883,443	1,632,482	928,652	557,806	9,002,383	
Claims	-	-	-	-	-	3,455,368
TOTAL OPERATING EXPENSES	60,166,416	6,518,348	8,182,227	3,640,463	78,507,454	8,691,154
OPERATING INCOME (LOSS)	(1,053,829)	2,408,256	160,763	(3,254,211)	(1,739,021)	(1,304,062)
NONOPERATING REVENUES (EXPENSES)						
Investment income	1,225,765	569,234	212,463		2,007,462	56,810
Interest expense	(3,613,454)	(2,055,864)	(73,948)	(2,572)	(5,745,838)	
Rent		103,345	10,664	13,152	127,161	
Operating grants	-	32,879		3,344,116	3,376,995	
Litigation-environmental lawsuits proceeds		-	6,700,399	-	6,700,399	
Other revenues	727,216	232,909	398,202	570,515	1,928,842	88,104
TOTAL NONOPERATING REVENUES (EXPENSES)	(1,660,473)	(1,117,497)	7,247,780	3,925,211	8,395,021	144,914
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(2,714,302)	1,290,759	7,408,543	671,000	6,656,000	(1,159,148)
Capital contributions	145,403	6,045,273	4,944,822	10,306	11,145,804	
Transfers in		5,000	5,000		10,000	
Transfers out	(2,908,246)	(1,062,533)	(962,056)		(4,932,835)	
Net capital contributions and transfers	(2,762,843)	4,987,740	3,987,766	10,306	6,222,969	
Change in net assets	(5,477,145)	6,278,499	11,396,309	681,306	12,878,969	(1,159,148)
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	13,274,590	31,829,731	19,556,070	12,803,942	77,464,333	(1,895,488)
NET ASSETS (DEFICIT) - END OF YEAR	\$ 7,797,445	38,108,230	30,952,379	13,485,248	\$ 90,343,302	\$ (3,054,636)

CITY OF LODI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2006

	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Fund
	Electric	Wastewater	Water	Nonmajor Fund Transit	Total	
Cash flows from operating activities:						
Receipts from customers and users	\$ 57,343,099	8,920,460	8,628,253	2,452,046	\$ 77,343,858	\$ 121,106
Receipts from interfund services provided	605,131				605,131	7,387,092
Cash paid to suppliers for goods & services	(46,984,513)	(2,226,325)	(6,575,664)	(2,926,819)	(58,713,321)	(6,448,614)
Payments to employees	(5,167,430)	(2,124,335)	(1,057,876)	(104,650)	(8,454,291)	(330,282)
Payments for interfund services provided	(2,011)	(678,442)	(656,816)	(32,175)	(1,369,444)	
Proceeds from litigation settlements			6,700,399		6,700,400	
Net cash provided by (used in) operating activities	<u>5,794,276</u>	<u>3,891,358</u>	<u>7,038,296</u>	<u>(611,598)</u>	<u>16,112,332</u>	<u>729,302</u>
Cash flows from noncapital financing activities:						
Receipt of loan to other funds		1,688,947			1,688,947	
Operating grants		32,879		3,344,116	3,376,995	
Repaid to other funds				(1,688,947)	(1,688,947)	
Transfers in		5,000	5,000		10,000	
Transfers out	(2,908,246)	(1,062,533)	(962,056)		(4,932,835)	
Net cash provided by (used in) noncapital financing activities	<u>(2,908,246)</u>	<u>664,293</u>	<u>(957,056)</u>	<u>1,655,169</u>	<u>(1,545,840)</u>	
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(1,311,048)	(2,458,319)	(948,412)	(189,843)	(4,907,622)	
Fees received from developers		248,441	87,355		335,796	
Principal payments on debt		(1,275,000)	(153,220)		(1,428,220)	
Interest payments on debt	(2,049,468)	(2,091,925)	(74,758)	(15,453)	(4,231,604)	
Net cash used in capital and related financing activities	<u>(3,360,516)</u>	<u>(5,576,803)</u>	<u>(1,089,035)</u>	<u>(205,296)</u>	<u>(10,231,650)</u>	
Cash flows from investing activities:						
Rent of City property		103,345	10,664	13,152	127,161	
Proceeds from sales and maturities of investments	1,344,148	1,619,886			2,964,034	
Interest on investments	1,215,832	579,804	186,844		1,982,480	69,695
Net cash provided by investing activities	<u>2,559,980</u>	<u>2,303,035</u>	<u>197,508</u>	<u>13,152</u>	<u>5,073,675</u>	<u>69,695</u>
Net increase in cash and cash equivalents	2,085,494	1,281,883	5,189,713	851,427	9,408,517	798,997
Cash and cash equivalents, beginning of year	4,896,603	584,922	4,300,091		9,781,616	3,261,419
Cash and cash equivalents, end of year	<u>\$ 6,982,097</u>	<u>1,866,805</u>	<u>9,489,804</u>	<u>851,427</u>	<u>\$ 19,190,133</u>	<u>\$ 4,060,416</u>
Reconciliation to the statement of net assets:						
Cash and investments	\$ 6,982,097	1,866,805	946,119	851,427	\$ 10,646,448	\$ 4,060,416
Restricted cash and investments			8,543,685		8,543,685	
Total cash and investments	<u>\$ 6,982,097</u>	<u>1,866,805</u>	<u>9,489,804</u>	<u>851,427</u>	<u>\$ 19,190,133</u>	<u>\$ 4,060,416</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating Income (loss)	\$ (1,053,829)	2,408,256	160,763	(3,254,211)	\$ (1,739,021)	\$ (1,304,062)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	5,883,443	1,632,482	928,652	557,806	9,002,383	
Proceeds from litigation settlements			6,700,399		6,700,399	
Other revenues	727,216	232,909	398,202	570,515	1,928,842	88,104
Change in assets and liabilities:						
(Increase) decrease in accounts receivable	(680,758)	(251,000)	(113,257)	(202,956)	(1,247,971)	35,387
Increase in advance receivables	(1,209,685)				(1,209,685)	
Decrease in due from other governmental agencies		(17,902)		1,698,235	1,680,333	
Decrease (increase) in inventory	401,005	(2,165)	(5,504)		393,336	
(Increase) decrease in other assets	(1,130)	1,170	318		358	(2,385)
Increase (decrease) in accounts payable and other liabilities	1,965,118	(180,490)	(1,020,862)	17,807	781,573	(30,742)
(Decrease) increase in compensated absences	(237,104)	39,419	(10,415)	1,206	(206,894)	
Increase in unearned revenue		28,679			28,679	
Increase in self-insurance liability						1,943,000
Net cash provided by (used in) operating activities	<u>\$ 5,794,276</u>	<u>3,891,358</u>	<u>7,038,296</u>	<u>(611,598)</u>	<u>\$ 16,112,332</u>	<u>\$ 729,302</u>
Noncash Investing, Capital and Financing Activities						
Capital contributions	\$ 145,403	5,796,832	4,857,467	10,306	\$ 10,810,008	\$
Interest reinvested			28		28	

CITY OF LODI
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	Private-Purpose Trust Funds	Agency Fund
ASSETS		
Cash and Investments	\$ 759,390	\$ 453,628
Receivables:		
Special assessments		71,594
Interest		2,196
Other assets		
TOTAL ASSETS	<u>759,390</u>	<u>527,418</u>
LIABILITIES		
Agency obligations		527,418
TOTAL LIABILITIES		<u>527,418</u>
NET ASSETS	<u>\$ 759,390</u>	

CITY OF LODI
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year ended June 30, 2006

	<u>Private-Purpose Trust Funds</u>
ADDITIONS	
Investment and rental income	\$ 77,925
Total additions	<u>77,925</u>
DEDUCTIONS	
Current	
Library	<u>12,862</u>
Total deductions	<u>12,862</u>
CHANGE IN NET ASSETS	65,063
NET ASSETS, BEGINNING OF YEAR	694,327
NET ASSETS, END OF YEAR	<u>\$ 759,390</u>

NOTES TO THE FINANCIAL STATEMENTS

CITY OF LODI
Notes to Basic Financial Statements
June 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) THE FINANCIAL REPORTING ENTITY

The City of Lodi (City) was incorporated on December 6, 1906, as a municipal corporation under the General Laws of the State of California. The City operates under a Council-Manager form of government and provides the following services: general government, public works, public protection (police and fire), public utilities, library, parks and recreation.

The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applicable to governments in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles.

An elected five-member council governs the City of Lodi. As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The component units, although legally separate entities, are, in substance, part of the City's operations and therefore, their activities are blended with data of the City.

Blended Component Units

The blended component units of the City are as follows:

The Lodi Public Improvement Corporation (LPIC) was formed on April 26, 1988, for the purpose of rendering financial assistance to the City in the issuance of the 1988 Certificates of Participation (refunded by the issuance of the 1991 Certificates of Participation) to finance the expansion of the City's White Slough Pollution Control Facility, the 1995 and 1996 Certificates of Participation to finance the Central City Revitalization Projects and the Performing Arts/ Conference Center, (refunded by the issuance of the 2002 Certificates of Participation), the issuance of the 1999 Certificates of Participation to finance the Electric Systems improvements (refunded by the 2002 Certificates of Participation Series A) and the issuance of the 2004 Wastewater System Revenue Certificates of Participation Series A to provide funds to finance the costs of certain improvements to the wastewater collection, treatment and disposal system of the City.

The City Council constitutes the Board of Directors of LPIC. The funds of LPIC have been included in the Enterprise (Electric and Wastewater) Funds and in the other governmental funds in the accompanying basic financial statements.

The Lodi Financing Corporation (LFC) was formed on October 12, 1999, for the purpose of assisting the City with the financing of the costs of its environmental abatement program and enhancing the water supply of the City for the use, benefit and enjoyment of the citizens served by the City. The City Council is the Board of Directors of LFC. The funds of LFC are included in the Water Fund in the accompanying basic financial statements.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

(b) Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities that rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(c) Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus and accrual basis of accounting*, as are the proprietary fund and private-purpose trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met. Agency funds use the accrual basis of accounting, but they do not have a measurement focus.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal year. All other revenues are considered to be available if they are generally collected within 120 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.

Property taxes, other local taxes, licenses, intergovernmental revenues, and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenues are considered to be measurable and available when the City receives cash.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The **Street Fund** accounts for Gas Tax revenues apportioned to the City under the Streets and Highway Code, impact fees charged to provide for the building of various storm drains and street improvements needed to serve new developments, and to account for funds apportioned to the City for sales tax collections under Measure K.

The City reports the following major proprietary (enterprise) funds:

The **Electric Fund** accounts for the provision of electric services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including but not limited to, source of supply, overhead, systems maintenance, customer service, engineering, administration, capital improvements, and maintenance and debt service.

The **Wastewater Fund** accounts for the provision of wastewater collection and treatment services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, improvements and debt service.

The **Water Fund** accounts for the provision of water to the residents of the City as well as some customers in the County. All activities to provide such services are accounted for in this fund, including, but not limited to administration, operations, distribution, maintenance, capital improvements and debt service.

Additionally, the City reports the following fund types:

The **Internal Service Fund** accounts for the City's claims and benefits.

The **fiduciary funds** account for assets held in trust for other agencies.

Private-Purpose Trust Funds are used to account for trust agreements under which the principal and income benefit individuals, private organizations or other governments. They were established to account for assets held and invested by the Library Board as trustee; and to account for assets held by the City in accordance with a trust agreement on behalf of the Hutchins Square. These funds can only be spent in accordance with the trust agreements.

Agency Fund accounts for assets held by the City as a trustee or as an agent for individuals, private organizations, related organizations and/or other governmental units. This fund was established to account for special assessments collected on the

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

property tax roll by the City on behalf of the property owners within the Industrial Way/Beckman Districts, the Downtown/Cherokee Lane Districts and various landscape and lighting districts around the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in both the business-type activities in the government-wide and the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. The City also has the option of the following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges to other City departments from the Electric, Wastewater, Water and Transit Funds. These charges have not been eliminated because elimination would distort the direct costs and program revenues reported in the statement of activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service fund are charges for customer services including: electric, wastewater, water and public transportation fees. Operating expenses for enterprise funds and internal service fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

(d) Cash and Investments

The City maintains a cash and investment pool that is available for all funds of the City for the purpose of increasing interest earnings through investment activities. Investments are generally stated at fair value with the exception of guaranteed investment contracts, which are stated at cost. Income earned or losses arising from the investment of pooled cash are allocated to various funds based on month-end cash balances in accordance with California Government Code Section 53647. Changes in fair value of investments are recognized as a component of interest and investment income.

Proceeds from debt and other cash and investments held by fiscal agents by agreement are classified as restricted assets.

(e) Restricted Cash and Investments

The City established an escrow account (the "Central Plume Fund") into which certain settlement payments were deposited with the mutual agreement between the City and the other parties that these funds will be used exclusively for environmental clean up, investigation or remediation expenses incurred by the City in the Central Plume Area and that it will not be used for the payment of legal or technical fees. These funds are accounted for in the Water Fund.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

(f) Restricted Assets with Fiscal Agents

In the Enterprise (Electric) Fund, restricted assets represent the proceeds of the 1999 Certificates of Participation held by the trustee for the planned improvements of the city electric systems. In the Capital Outlay Reserve Fund, the restricted assets represent the proceeds of the 2002 Improvement bonds reserved for debt service. In the Wastewater fund, the restricted assets represent the proceeds of the 2003B and the 2004A Certificates of Participation issued for improvements to the City's wastewater collection, treatment and disposal system. In the Water Fund, the restricted assets represent funds held by the attorneys in connection with the PCE/TCE litigation.

(g) Property Taxes

San Joaquin County is responsible for assessing, collecting and distributing property taxes in accordance with enabling legislation. Revenue received is based on an allocation factor calculated by the County under the provisions of Proposition 13 plus a percentage of the increase in market value in specific areas. The City's property tax is lien based on the assessed value listed as of the prior January 1st for all real and personal property located in the City. Property sold after the assessment date (January 1st) is reassessed and the amount of property tax assessed is prorated. The assessed value at January 1, 2004, upon which the 2005 levy was based, was \$4,473,902,000.

Secured property taxes are levied on October 1 and are due in two installments on November 1 and February 1. The tax becomes delinquent after December 10 and April 10, respectively. Unsecured property tax is levied on July 1, due on July 31 and becomes delinquent after August 31.

Property taxes levied for the year ended June 30, 2006, are recorded as receivables, net of estimated uncollectible amounts. Property taxes paid to the City by the County within 60 days of the fiscal year end are considered "available" and are, therefore, recognized as revenue.

In 1993, the City made an agreement with the San Joaquin County to participate in the Teeter Plan. The Teeter plan is an alternative method of apportioning property tax money. The cities receive 95% of the property taxes in advance from the County and the 5% remaining after reconciling the cities' balances at June 30. As part of the agreement, the County keeps the penalties and interest on the delinquent taxes.

(h) Due From/Due To Other Funds and Internal Balances

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. In the fund financial statements, these receivables and payables are classified as "due from other funds" or "due to other funds." In the government-wide financial statements, these receivables and payables are eliminated within the governmental activities and business-type activities columns. Receivables and payables between the governmental activities and the business-type activities are classified as internal balances.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

(i) Transfers

In the fund financial statements, interfund transfers are recorded as transfers in (out) except for transactions that are described below:

Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund at the end of fiscal year.

Reimbursements for expenditures, initially made by one fund that is properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as other revenue in the fund that is reimbursed. Reimbursements are eliminated for purposes of government-wide reporting.

(j) Long-term obligations

In the government-wide financial statements and in the proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Gains or losses occurring from advance refunding are deferred and amortized into expense for both governmental and business-type activities.

(k) Loan receivable

Loan receivable reported in the HOME Program & Community Development Block Grant Special Revenue Fund represent funds the City loaned to a developer for a low-income housing project. The City will receive principal and interest from the original loan in thirty years and can use it for allowable projects or to make new loans.

(l) Advance receivable

Advance receivable reported in the Enterprise Fund (Electric) represents the City's portion of the Northern California Power Agency's (NCPA) General Operating reserve that is refundable upon demand by the City. (See Note 13.)

(m) Inventory

General fund inventories are recorded at cost and are recognized as expenditures when consumed rather than when purchased. For the proprietary fund types, inventories are recorded at cost using the weighted average cost method, which approximates market, and expense is recognized when inventories are consumed in operations.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

(n) Deferred Charges

Deferred charges reported in the Electric Fund include costs incurred in connection with the issuance of the 2002 Certificates of Participation Series A and B amortized over 30 years. It also includes the buyout cost of the Calpine energy purchase contract amortized over 9.5 years. The deferred charges reported in the Wastewater Fund include costs incurred on the issuance of the 1991 Certificates of Participation amortized over 32.5 years and the costs incurred on the issuance of the 2003B and 2004A Certificates of Participation amortized over 20 years.

(o) Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles, infrastructure (e.g., streets, streetlights, traffic signals, sidewalks, and bridges), and electric lines, wastewater lines and storm drains are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with individual cost of \$3,000 or more and have an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures in the General and other governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized.

As required by the Governmental Accounting Standards Board Statement No. 34, beginning July 1, 2002, the City has capitalized infrastructure, primarily its network of streets, as part of the capital assets shown in the governmental activities column on the government-wide statement of net assets. This capitalization included infrastructure that could be identified and has been acquired since July 1, 1980.

Depreciation of capital assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	3 - 40
Machinery and equipment	2 - 40
Vehicles	5 - 15
Infrastructure	10 - 50

(p) Compensated Absences/Vacation and Sick Leave

Accumulated vacation and vested sick leave benefits are accrued when incurred in the government-wide financial statements and the proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

(q) Self-Insurance

The City is self-insured for general liability, workers' compensation, dental benefits, unemployment and long-term disability. Various City funds are charged premiums for the City's self-insurance liability, which is accounted for as an internal service fund. The accrued liability for estimated self-insured claims represents an estimate of the eventual loss on claims arising prior to year-end including claims incurred but not reported.

(r) Fund Equity

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(s) Statement of Cash Flows

A statement of cash flows is presented for proprietary fund types. For purposes of reporting cash flows, the City considers all highly liquid investments with maturities of three months or less when purchased and investments maintained in the pool to be cash equivalents.

(t) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

2) Cash and Investments

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of net assets:		
Cash and investments	\$	27,625,331
Restricted assets		35,699,041
Fiduciary funds cash and investments:		
Private-purpose trust funds		759,390
Agency fund		453,628
Total cash and investments	\$	<u>64,537,390</u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

Cash and investments as of June 30, 2006 consist of the following:

Cash on hand	\$	2,073
Deposits with financial institutions		21,753,014
Investments		42,782,303
Total cash and investments	\$	<u>64,537,390</u>

a) Authorized Investments

The City has adopted an investment policy pursuant to Government Code Section 53601 which authorizes the City to invest in obligations of the U.S. Treasury, U.S. Government agency securities and instruments, commercial paper rated A-1 by Standard & Poor's or P-1 by Moody's Commercial Paper Record, bankers' acceptances, certificates of deposits, mutual funds, government investment contracts, medium term notes as permitted by the Government Code, and the State of California Local Agency Investment Fund (LAIF). The City is not authorized to enter into reverse repurchase agreements. The City selects its investments based on safety, liquidity and yield.

b) Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by the provisions of the debt agreements and to the extent that they are permissible investments of funds of the City. The following table below identifies the permitted investment types authorized per the City's investment policy. The table also identifies certain provisions that address interest rate risk, credit risk, and concentration of credit risk.

Permitted Investments/Deposits	Maximum Maturity	Maximum % of Portfolio	Maximum Investment in One issuer	Minimum Credit Quality
U.S. Treasury Obligations	5 years	100%		AAA
U.S. Agency Securities	5 years	100%		AAA
Banker's Acceptances	180 days	40%	25%	AAA
Certificates of Deposit	5 years	100%	33%	
Negotiable Certificates of Deposit	5 years	30%		
Commercial Paper	270 days	40%		AAA
California State Local Agency Investment Fund (LAIF)	Indefinite	100%	\$40m per account	unrated
Money Market Mutual Funds	Indefinite	20%		AAA
Guaranteed investment contracts (GICs)	5 years	100%		AA-
Medium term Notes	5 years	30%		AAA

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

c) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

Investment as of June 30, 2006	Maturity Less than One Year	Maturity One to Five Years	Total
LAIF	\$ 15,284,809	\$	15,284,809
Money Market Mutual Funds	521,817		521,817
Equities and options	120,321		120,321
Held by bond trustee:			
Money Market Mutual Funds	12,276,738		12,276,738
Guaranteed investment contracts (GICs)		14,578,618	14,578,618
Total	\$ 28,203,685	14,578,618	\$ 42,782,303

Investments in equities are shares of stocks received by the Library as an endowment from a private citizen.

d) Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The money market funds are registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and have a rating by S & P of "AAAm-G," "AAA-m" or "AA-m" and rated by Moody's "Aaa," "Aa1" or "Aa2." The GICs and LAIF do not have a rating provided by a nationally recognized statistical rating organization.

e) Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in LAIF and money market mutual funds are not subject to the concentration of credit risk disclosure. Of the remaining investments, only the GICs which are all issued by IXIS Funding Corporation, exceeded 5% of total City investments.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

f) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured deposits. \$22,035,503 of the City's deposits with financial institutions, which exceeded federal depository insurance limits, was collateralized in this fashion.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of another party. The California Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools such as LAIF.

g) Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized basis.

The total amount invested by all public agencies in LAIF at June 30, 2006 was \$16.4 billion. LAIF is part of the California Pooled Investment Account (PMIA), which at June 30, 2006 had a balance of \$63.3 billion. Of this amount, 2.567% was invested in derivative financial products. PMIA is not SEC-registered, but is required to invest according to California State Code. The average maturity of PMIA investments was 152 days as of June 30, 2006.

The Local Investment Advisory Board has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool of shares in LAIF, which maybe withdrawn, is determined on an amortized cost basis, which is different than the fair value of the pooled treasury's portion in the pool. Withdrawals from LAIF are done on a dollar for dollar basis.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

In accordance with GASB 31, investments are marked to fair values annually and an adjustment is made to each fund accordingly. However, actual daily activity is done on a dollar to dollar basis and only a withdrawal from the pool size that jeopardizes pool participants would cause the withdrawal to be done at market value.

(3) ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Receivables of the General Fund, Electric, Wastewater and Water funds are reported net of uncollectible amounts. Total allowance provided for uncollectible amounts related to receivables of the current period are as follows:

Uncollectibles related to late charges and services	\$	15,800
Uncollectibles related to electric sales and services		202,600
Uncollectibles related to wastewater services		36,100
Uncollectibles related to water sales and services		42,100
Total uncollectibles of the current fiscal year	\$	<u>296,600</u>

(4) INTERFUND RECEIVABLES/PAYABLES

Interfund receivables and payables at June 30, 2006 are as follows:

Due from	Due to	Amount
Other governmental	Streets	\$ <u>541,543</u>
		\$ <u>541,543</u>

"Due to" and "due from" balances are recorded primarily when funds overdraw their share of pooled cash or when there are short-term loans between funds. The \$541,543 represents cash deficit in other governmental funds.

Advances from	Advances to	Amount
General	Other governmental	\$ 261,880
Other governmental	Streets	636,770
Water	Other governmental	<u>1,225,173</u>
		\$ <u>2,123,823</u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

The \$261,880 from the General Fund to the Other governmental is an advance used for the start up costs of a redevelopment agency. The \$636,770 advance from Other governmental was used for the Lower Sacramento Road expansion project. The \$1,225,173 advanced from the Water Fund was used for the construction of Fire Station #4.

(5) TRANSFERS

Transfers for the year ended June 30, 2006, are summarized as follows:

		<u>Transfers in</u>				
		Other				
<u>Transfers out:</u>		General	Governmental	Wastewater	Water	Total
General	\$		1,833,864			\$ 1,833,864
Streets		1,566,579	96,107			1,662,686
Other governmental		403,410	318,938			722,348
Electric		2,898,246		5,000	5,000	2,908,246
Wastewater		1,062,533				1,062,533
Water		962,056				962,056
Total	\$	6,892,824	2,248,909	5,000	5,000	\$ 9,151,733

During the year, various interfund transfers were made to finance expenditures, subsidize operating losses and service debt.

The total transfers out of \$1,566,579 from Streets to the General Fund include the transfer of \$1,150,194 gas tax revenues to fund the Public Works Street Maintenance Division, \$361,636 for engineering cost of services and \$54,749 in reimbursements from Measure K. The transfer out of \$96,107 from Streets to Other Governmental represents the annual transfer to the Debt Service Fund for the principal and interest payment of the City's Measure K loan from San Joaquin Council of Governments for the construction costs incurred for the Highway 12/Kettleman Lane/Highway 99 Interchange Improvements project.

Transfers out from Other Governmental to the General Fund of \$403,410 include transfers of \$115,130 from Fire Facilities Impact fees to cover lease payment of the new fire truck; \$50,000 to reimburse the General Fund for the costs associated with the administration of the IMF program; 139,074 for engineering costs of services; and \$3,100 for the Arts in Public Places program.

The \$1,833,864 transfers out from the General Fund to Other Governmental represent transfers of \$1,631,053 to the Debt Service Fund for the principal, interest and fiscal charges required to pay the 2002 Certificates of Participation; \$175,000 to the Community Development Fund; \$21,702 to the Public Safety Special Revenue Funds as matching funds for the purchase of Self-contained Breathing Apparatus Equipment and mobile compressor; and \$6,109 to the Special Grants for the Tree Planting program.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

The \$2,898,246 transfer out from the Electric Fund is for cost of services reimbursement to the General Fund, \$1,062,533 from Wastewater includes cost of services of \$908,793, engineering cost of \$30,740 and \$123,000 for additional street sweeping reimbursement to the General Fund. The \$962,056 from Water includes \$909,260 for cost of services and \$52,796 for engineering costs. The transfer of \$318,938 from Other Governmental to Other Governmental represent transfers of \$187,500 to Vehicle and Equipment Fund; \$78,000 to the Community Development Fund and \$53,438 to the Debt Service Fund. Transfers out of \$10,000 from the Electric Fund to Wastewater Fund and Water Fund are transfers for public benefit programs.

(6) CAPITAL ASSETS

Capital assets activity of the primary government for the year-ended June 30, 2006, was as follows:

	Balance June 30, 2005	Increases	Decreases	Balance June 30, 2006
<u>Governmental activities</u>				
Capital assets, not being depreciated:				
Land	\$ 23,798,811	217,563		\$ 24,016,374
Work of art	62,024			62,024
Construction in progress	4,373,798	189,677	(1,362,885)	3,200,590
Total capital assets, not being depreciated	28,234,633	407,240	(1,362,885)	27,278,988
Capital assets, being depreciated:				
Buildings and improvements	56,360,363	452,464		56,812,827
Machinery and equipment	7,542,375	229,625		7,772,000
Vehicles	8,811,162	36,623		8,847,785
Infrastructure	95,414,811	12,086,908		107,501,719
Total capital assets, being depreciated	168,128,711	12,805,620		180,934,331
Less accumulated depreciation for:				
Buildings and improvements	16,037,336	1,491,413		17,528,749
Machinery and equipment	6,285,317	406,186		6,691,503
Vehicles	6,559,610	546,896		7,106,506
Infrastructure	34,332,895	5,017,775		39,350,670
Total accumulated depreciation	63,215,158	7,462,270		70,677,428
Total capital assets, being depreciated, net	104,913,553	5,343,350		110,256,903
Governmental activities capital assets, net	\$ 133,148,186	5,750,590	(1,362,885)	\$ 137,535,891

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

Business-type activities

	Balance			Balance
	June 30, 2005	Increases	Decreases	June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 5,247,806			\$ 5,247,806
Construction in progress	20,307,276	3,945,362	(4,552,606)	19,700,032
Total capital assets, not being depreciated	25,555,082	3,945,362	(4,552,606)	24,947,838
Capital assets, being depreciated:				
Buildings and improvements	34,461,202			34,461,202
Machinery and equipment	99,879,557	16,298,798		116,178,355
Vehicles	6,905,802	26,076		6,931,878
Total capital assets, being depreciated	141,246,561	16,324,874		157,571,435
Less accumulated depreciation for:				
Buildings and improvements	7,208,143	862,891		8,071,034
Machinery and equipment	30,013,946	2,674,702		32,688,648
Vehicles	4,475,782	467,580		4,943,362
Total accumulated depreciation	41,697,871	4,005,173		45,703,044
Total capital assets, being depreciated, net	99,548,690	12,319,701		111,868,391
Business-type activities capital assets, net	\$ 125,103,772	16,265,063	(4,552,606)	\$ 136,816,229

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

Depreciation expense was charged to function/programs of the primary government as follows:

Governmental activities:

General government	\$ 777,259
Public protection	906,401
Public works	5,130,691
Community development	22,328
Library	4,767
Parks and recreation	620,824
Total depreciation expense - governmental activities	\$ <u>7,462,270</u>

Business-type activities:

Electric	\$ 943,353
Wastewater	1,575,362
Water	928,652
Transit	557,806
Total depreciation expense - business-type activities	\$ <u>4,005,173</u>

(7) Operating Leases

The City is obligated under various operating leases for the use of buildings and office space. Total costs for such leases were \$152,382 for the year ended June 30, 2006.

Future minimum lease payments required by lease agreements that have initial or remaining noncancellable lease terms of one year or more as of June 30, 2006, are as follows:

<u>Fiscal Years Ending</u>	
2007	\$ <u>91,400</u>
Total minimum lease payments required under operating leases	\$ <u>91,400</u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

(8) Long-Term Obligations

The following is a summary of debt transactions of the City for the year ended June 30, 2006:

	<u>Interest Rates</u>	<u>June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2006</u>	<u>Amounts Due Within One Year</u>
Governmental activities:						
Compensated absences		\$ 9,307,134	3,078,297	(2,520,272)	\$ 9,865,159	\$ 3,078,297
2002 Certificates of Participation	3.0-5.0%	25,030,000		(520,000)	24,510,000	535,000
Note payable	5.0%	245,000			245,000	245,000
Loan payable	4.0%	368,175		(89,662)	278,513	91,232
Capital leases	5.3-5.39%	1,212,330		(282,393)	929,937	266,619
Self-insurance liability		5,140,000	3,455,368	(1,512,368)	7,083,000	1,512,368
Governmental activity long-term liabilities		<u>\$ 41,302,639</u>	<u>6,533,665</u>	<u>(4,924,695)</u>	<u>\$ 42,911,609</u>	<u>\$ 5,728,516</u>
	<u>Interest Rates</u>	<u>June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2006</u>	<u>Amounts Due Within One Year</u>
Business-type activities:						
Compensated absences		\$ 2,379,424	564,930	(771,824)	\$ 2,172,530	\$ 564,930
California Safe Drinking Water Note Payable	3.41%	2,230,125		(153,220)	2,076,905	158,536
Certificates of Participation:						
1991 Certificates of Participation	4.5-6.6%	9,205,000		(195,000)	9,010,000	210,000
Less deferred amounts:						
For issuance discounts		(311,227)		14,474	(296,753)	(14,475)
Net		<u>8,893,773</u>		<u>(180,526)</u>	<u>8,713,247</u>	<u>195,525</u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

						Amounts Due Within One Year
	<u>Interest Rates</u>	<u>June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2006</u>	
2002 Certificates of Participation A & B	Variable	46,760,000			46,760,000	
Less deferred amounts:						
From refunding		(7,167,231)		286,689	(6,880,542)	(286,688)
Net		39,592,769		286,689	39,879,458	(286,688)
2002 Certificates of Participation C & D	1.54-5.25%	38,645,000			38,645,000	4,655,000
Add deferred amounts:						
For issuance premium		426,640		(65,636)	361,004	65,636
Total		39,071,640		(65,636)	39,006,004	4,720,636
2003 Certificates of Participation B	2.0-5.0%	4,815,000		(185,000)	4,630,000	190,000
Add deferred amounts:						
For issuance premium		74,861		(4,102)	70,759	4,102
Total		4,889,861		(189,102)	4,700,759	194,102
2004 Certificates of Participation A	2.0-5.5%	27,190,000		(895,000)	26,295,000	915,000
Add deferred amounts:						
For issuance premium		409,583		(21,277)	388,306	21,277
Total		27,599,583		(916,277)	26,683,306	936,277
Total Certificates of Participation		120,047,626		(1,064,851)	118,982,775	5,759,852
Business-type activity long-term liabilities		\$ 124,657,175	564,930	(1,989,896)	\$ 123,232,209	\$ 6,483,318

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end \$7,083,000 of internal service funds self-insurance liability was included in the above amounts. Also, for the governmental activities, compensated absences are generally liquidated by the general fund.

Long-term debt payable at June 30, 2006, comprised of the following individual issues:

California Safe Drinking Water Note Payable

The City entered into a contract on October 16, 1991, with the State of California Department of Water Resources to assist the City in financing the construction of water wells enabling the City to meet safe drinking water standards established by the State. The original amount of the note

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

was \$3,129,828 and is secured by the project and a pledge of user fees collected by the Water Enterprise Fund. Semiannual payments of \$114,006, are payable each October 1 and April 1 through 2016.

Annual debt service requirements to maturity of water note payable are as follows:

Fiscal Year Ending June 30,	Business-type Activities	
	Principal	Interest
2007	\$ 158,536	\$ 69,488
2008	163,859	64,166
2009	169,747	58,277
2010	175,462	52,562
2011	181,496	46,528
2012-2016	1,005,477	134,645
2017	222,328	5,694
Total	\$ <u>2,076,905</u>	\$ <u>431,360</u>

Note Payable

The City issued a \$245,000 promissory note to James E. Dean and Carol Dean, as trustees of the James E. Dean Family Trust, for the purchase of 307 W. Elm Street property, which is the site of the new Public Safety Building. Interest is payable quarterly and principal is due on April 1, 2007.

Annual debt service requirements to maturity of the note payable are as follows:

Fiscal Year Ending June 30,	Governmental Activities	
	Principal	Interest
2007	\$ 245,000	\$ 9,188
Total	\$ <u>245,000</u>	\$ <u>9,188</u>

Loan Payable

The City entered into an agreement and issued a promissory note to San Joaquin County Council of Governments, a joint powers agency acting as the San Joaquin County Transportation Authority, in the amount of \$840,000 on February 5, 1999 for the purpose of funding the Kettleman Lane/SR 99 Interchange project. The balance remaining as of June 30, 2006, is \$278,513. Interest and principal is due and payable annually and matures on July 1, 2009.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

Annual debt service requirements to maturity of loan payable are as follows:

Fiscal Year Ending June 30,	Governmental Activities	
	Principal	Interest
2007	\$ 91,232	4,874
2008	92,828	3,277
2009	94,453	1,653
Total	\$ 278,513	\$ 9,804

Certificates of Participation

\$11,170,000 Certificates of Participation (1991 Wastewater Treatment Plant Expansion Refunding Project) were sold in December 1991 for the repayment of the 1988 Wastewater Treatment Plant Expansion Project at a lower interest rate with approximately \$1,400,000 of additional proceeds. Principal is payable annually on August 1 in amounts from \$100,000 to \$760,000 with final payment due August 1, 2026.

\$5,000,000 California Statewide Communities Development Authority Water and Wastewater Revenue Bonds were issued on October 7, 2003. The City of Lodi along with the City of Fort Bragg issued \$9.855 million 2003 Series B revenue bonds through the California Statewide Communities Development Authority (the "Authority") pooled financing program. The City of Lodi's portion is \$5.0 million for the upgrade of its wastewater facilities. Principal is payable annually on October 1 in amounts from \$185,000 to \$365,000 with final payment due October 1, 2023.

The Authority's Water and Wastewater Pooled Financing Program is available to California water and wastewater agencies to facilitate the financing or refinancing of capital improvements. The program is available to California cities and special districts that operate water or wastewater enterprises. The Authority is authorized pursuant to Chapter 5 of Division 7 of Title 1 of the California Government Code to issue bonds to finance and refinance water and wastewater public capital improvements of local agencies located throughout California.

\$27,360,000 Certificates of Participation (2004A COP) were issued on May 12, 2004 to provide funds to finance the costs of certain improvements to the wastewater collection, treatment and disposal system of the City. Principal is payable annually on October 1 in amounts from \$170,000 to \$2,070,000 with final payment due October 1, 2024.

\$26,745,000 Certificates of Participation (2002 COP) were issued in January 2002 to provide funds to finance the costs of constructing, furnishing and equipping a new police building and jail for the City; to finance portions of certain other projects and to refund the outstanding 1995 and 1996 Certificates of Participation. The 1995 Certificates of Participation (1995 COP) were sold in October 1995 to finance the City Downtown Revitalization and the Cherokee Lane Beautification projects. The 1996 Certificates of Participation (1996 COP) were sold in August

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

1996 to finance the construction of the Hutchins Street Square Conference and Performing Arts Center. Principal is payable annually on October 1 in amounts from \$730,000 to \$1,600,000 with final payment due October 1, 2031.

\$46,760,000 2002 Variable Rate Demand Series A and **\$8,400,000** 2002 Taxable Series B Electric System Revenue Certificates of Participation were sold in January 2002. The proceeds of the 2002A Certificates of Participation were used to advance refund the 1999 Electric System *Certificates of Participation Series A* and the 1999 Series B Capital Appreciation certificates. The 1999 Series A and Series B Revenue Certificates of Participation were sold on August 18, 1999, to provide funds to finance the costs of certain improvements to the distribution and transmission facilities of the City's Electric System. As of June 30, 2006, the outstanding balance of the advanced refunded certificates is \$43,957,682. The proceeds of the 2002B Certificates were deposited in the Rate Stabilization Fund and applied to certain power purchase costs of the City. Principal for Series A is payable annually beginning 2011 to 2032 in amounts ranging from \$1,175,000 to \$ 3,460,000. Series B was fully paid as of June 30, 2005.

The interest rate on the 2002A Certificates is determined based on the "Weekly Rate Index" for weekly interest rate periods. "Weekly Rate Index " is defined as The Bond Market Association Municipal Index as of the most recent date for which such index is published.

\$21,225,000 Revenue Certificates of Participation 2002 Series C and **\$22,740,000** Revenue Certificates of Participation Series D were issued to buy out the energy purchase agreement with Calpine.

In February 2001, the City entered into an energy purchase agreement (the Original Agreement) with Calpine Energy Services L.P. (Calpine) to purchase 25 MW of energy at \$65/mwh for a ten-year period beginning January 1, 2002. Since the execution of the Original Agreement, actions of the State in connection with the energy market conditions, including the initiation of conservation programs, and other factors, have resulted in lower electric load requirements and reduced energy costs throughout the State. As a result, the City's need for the energy purchased under the Original Agreement to serve its load has been reduced. The Original Agreement was amended on September 4, 2002, and was divided into three parts. The City sold its interests in the energy purchased under the Original Agreement to Calpine and nets the payments due from the City with respect to its purchase of such energy against the payments due from Calpine with respect to its purchase of the City's rights to such energy. On November 21, 2002, the City issued \$21,225,000 Revenue Certificates of Participation 2002 Series C and \$22,740,000 Revenue Certificates of Participation 2002 Taxable Series D to buy out the amended contract in the amount of \$42,406,175.

The various indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of moneys through various restricted accounts and minimum revenue bond coverage. The City is in compliance with all such significant limitations and restrictions.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

Interest Rate Swaps

1999 \$42 Million Forward Basis Swap

Objective:

As a means to lower its borrowing costs, the City executed a forward floating-to-floating ("Basis") swap in connection with its existing \$42,000,000 Electric System Revenue Certificates of Participation, 1999 Series A and B. The intention of the swap was to provide protection against rising short-term interest rates since the City's net payment increases as rates rise.

Terms:

Under the swap, the City pays Citigroup (previously Salomon) a variable payment computed as The Bond Market Association Municipal Swap Index TM (BMA) and received a variable payment computed as 74.25% of the London Interbank Offered Rate (LIBOR). The swap has a notional amount of \$42 million and the associated fixed rate bonds had a \$42 million principal amount at the time the swap was executed. The swap began on July 15, 2003 and matures on September 29, 2014. As of June 30, 2006, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Variable payment to counterparty	BMA	3.9700%
Variable payment from counterparty	74.25% of LIBOR	(4.0300%)
Net interest rate swap payments		(0.0600%)

Fair Value:

As of June 30, 2006, the swap had a fair value of \$336,600. The fair value was estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swaps.

Credit Risk:

As of June 30, 2006, the City was exposed to credit risk because the swap had a positive fair market value. The counterparty was rated Aa1 by Moody's Investors Service, AA- by Standard & Poor's, and AA+ by Fitch Ratings. To mitigate the potential for credit risk, the counterparty is required to post collateral should the fair value exceed certain thresholds. In the event of a downgrade of the counterparty below AAA by Standard & Poor's, the threshold amount is \$10 million.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

Basis Risk:

As noted above, the swap exposes the City to basis risk should the relationship between LIBOR and BMA converge. If a change occurs that results in the rates' moving to convergence, the expected cost savings of the swap may not be realized.

Termination Risk:

The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the counterparty if the City's credit rating falls below BBB- as determined by Fitch or BBB- as determined by Standard & Poor's. Also, if at the time of an early termination of the swap, if the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

2002 \$46.8 Million Step-Up Coupon Swap

Objective:

In connection with its issuance of \$46,760,000 of Electric System Revenue Certificates of Participation 2002 Variable Rate Demand Series A, the City entered into a swap transaction with Salomon Smith Barney on January 2002. The intention of the swap was to change the City's variable interest rate on the bonds to a synthetic fixed rate that steps up over time. The swap was structured with step-up coupons in order to provide the City with lower debt service in the earlier years of the transaction.

Terms:

Under the swap, the City pays Citigroup (previously Salomon) a fixed rate with an initial coupon of 2.503%. Beginning July 1, 2005, the swap coupon stepped up to 3.749% and then steps up to 4.945% on July 1, 2010 until maturity. In exchange, the City receives an initial variable rate equal to 59.65% of the 1-month London Interbank Offered Rate (LIBOR). Beginning January 1, 2004, the percent of LIBOR received by the City stepped up to 60.56% and then steps up to 62.92% of LIBOR on January 1, 2006 until maturity. The 4.945% coupon in the final period reflects the above-market fixed rate required to offset the first two periods' below-market fixed rates of 2.503% and 3.749% respectively. The effective at-market fixed rate for the entire swap term equals 3.85% or approximately 61.71% of LIBOR. The notional amount of the swap matches the notional amount of the bonds outstanding in each year. The bonds' variable-rate coupons are assumed to be based on The Bond Market Association Municipal Swap IndexTM (BMA).

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

The bonds and related swap mature on July 1, 2032. As of June 30, 2006, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.7490%
Variable payment from counterparty	62.92% of LIBOR	(3.4130%)
Net interest rate swap payments		0.3360%
Variable rate bond payments	BMA	3.9700%
Synthetic interest rate on bonds		4.3060%

Fair Value:

As of June 30, 2006, the swap had a fair value of (\$4,621,519). The negative fair value of the swap is a result of the decline in interest rates since the inception date of the swap. The fair value was estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swap.

Credit Risk:

As of June 30, 2006, the City was not exposed to credit risk because the swap had a negative fair market value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the swap's fair value. The counterparty was rated Aa1 by Moody's Investors Service, AA- by Standard & Poor's, and AA+ by Fitch Ratings. To mitigate the potential for credit risk, the counterparty is required to post collateral should the fair value exceed certain thresholds. In the event of a downgrade of the counterparty below AAA by Standard & Poor's, the threshold amount is \$10 million.

Basis Risk:

As noted above, the swap exposes the City to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates' moving to convergence, the expected cost savings of the swap may not be realized.

Termination Risk:

The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swap contract is insured by MBIA Insurance Corporation. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the City if both the insurer and the City's credit rating are downgraded below AA-, Aa3 and the City's credit rating falls below Baa3 as determined by Moody's Investor Service or BBB- as determined by Standard & Poor's. If the swap is terminated, the bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of an early termination of the swap, if the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

**2003 \$42 Million Fixed-to-Floating Swap Termination
2003 \$42 Million Fixed-to-Floating Swap**

Objective:

On April 16, 2003 the City executed two transactions with Citigroup, which comprised 1) the termination of an existing \$42 million fixed-to-floating swap maturing 2014 and 2) the execution of a new \$42 million fixed-to-floating swap maturing 2009. The City initially entered into a swap in September 1999 in order to convert its fixed-rate Bonds, into synthetic variable-rate debt. The fixed-receiver rate on the swap was 5.11%. Since interest rates had declined substantially since the City entered into the swap, the City received a net payment from Citibank to terminate the swap in the amount of \$4,743,000. The City executed a new \$42 million fixed-to-floating swap to manage interest rate volatility in its liability portfolio.

Terms:

Under the swap, the City receives a fixed rate of 4.00% and pays The Bond Market Association Municipal Swap Index TM (BMA) +100 bps. The swap has a notional amount of \$42 million and matures on January 15, 2009. As of June 30, 2006, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Variable payment to counterparty	BMA + 100 bps	4.9700%
Fixed payment from counterparty	Fixed	(4.0000%)
Net interest rate swap payments		0.9700%

Fair Value:

As of June 30, 2006, the swap had a fair value of (\$810,907). The fair value was estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swaps.

Credit Risk:

As of June 30, 2006, the City was not exposed to credit risk because the swap had a negative fair market value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the swap's fair value. The counterparty was rated Aa1 by Moody's Investors Service, AA- by Standard & Poor's, and AA+ by Fitch Ratings. To mitigate the potential for credit risk, the counterparty is required to post collateral should the fair value exceed certain thresholds. In the event of a downgrade of the counterparty below AAA by Standard & Poor's, the threshold amount is \$10 million.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

Basis Risk:

The swap does not expose the City to basis risk since the swap is not based on the LIBOR index. If a change occurs that results in BMA increasing, the expected savings of the swap may not be realized.

Termination Risk:

The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the City if the counterparty's credit rating falls below BBB- as determined by Fitch or BBB- as determined by Standard & Poor's. If the swap is terminated, the bonds would no longer carry a synthetic variable interest rate. Also, if at the time of an early termination of the swap, if the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt.

Using rates as of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	2002 Electric Certificates of Participation Series A			
	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2007	\$	1,856,372	40,854	\$ 1,897,226
2008		1,856,372	115,344	1,971,716
2009		1,856,372	137,605	1,993,977
2010		1,856,372	109,620	1,965,992
2011	1,175,000	1,856,372	418,943	3,450,315
2012-2016	6,885,000	8,789,382	2,894,080	18,568,462
2017-2021	8,890,000	7,348,073	2,237,468	18,475,541
2022-2026	11,495,000	5,484,555	1,660,023	18,639,578
2027-2031	14,855,000	3,077,147	930,068	18,862,215
2032-2033	3,460,000	405,139	93,377	3,958,516
	<u>\$ 46,760,000</u>	<u>34,386,156</u>	<u>8,637,382</u>	<u>\$ 89,783,538</u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

Annual debt service requirements to maturity for certificates of participation are as follows:

Fiscal Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 535,000	\$ 1,140,547	\$ 5,970,000	\$ 5,549,258
2008	555,000	1,123,642	6,595,000	5,510,261
2009	565,000	1,104,874	4,320,000	5,293,868
2010	590,000	1,084,071	4,550,000	5,084,303
2011	610,000	1,060,956	5,975,000	5,203,078
2012-2016	3,435,000	4,893,166	35,200,000	21,966,838
2017-2021	4,275,000	4,001,564	20,290,000	14,650,417
2022-2026	5,425,000	2,833,144	23,365,000	8,735,955
2027-2031	6,920,000	1,298,250	15,615,000	4,007,215
2032	1,600,000	40,000	3,460,000	498,516
Total	\$ 24,510,000	\$ 18,580,214	\$ 125,340,000	\$ 76,499,708

Capital Leases

The City has entered into lease agreements for financing the acquisition of two fire trucks and the improvements to the leased Finance Building. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of inception date. The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Vehicles	\$2,307,123
Leasehold improvements	124,478
Less accumulated depreciation	(1,132,244)
Total	<u>\$ 1,299,357</u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

The present values of future minimum capital lease payments as of June 30, 2006, are as follows:

Fiscal Years Ending		
2007	\$	315,287
2008		279,348
2009		148,003
2010		148,003
2011		148,003
Total minimum lease payments		1,038,644
Less amounts representing interest		(108,707)
Present value of minimum capital lease payments	\$	929,937

Special Assessment District Debt

The City issued limited obligation improvement bonds on July 22, 1996, for the "Lodi Central City Revitalization Assessment District." These bonds have no governmental commitment and debt service is recorded in an Agency Fund. These bonds were issued under the Improvement Act of 1915 and will mature in the year 2011. The City's liability in the event of delinquent assessment shall not exceed the balance of the established Reserve Fund. The amount outstanding as of June 30, 2006, is \$880,000.

Industrial Development Bonds

The City of Lodi has lent its name to the City of Lodi Industrial Development Authority for the purpose of issuing the following industrial development bonds: Minton Corporation \$5,000,000; Dart Corporation \$8,000,000; Wallace Computer Services \$3,000,000; and Luster-Cal Nameplate Corporation \$3,000,000. These bonds are special obligation bonds only, payable solely out of the bond revenues or other sources of the above companies and are not a pledge of the general credit of the City. The City is not obligated for the redemption or administration of these industrial development bonds.

Woodbridge Irrigation District Bonds

On October 8, 2003, the City lent its name to the Woodbridge Irrigation District (the "District") in the procurement of \$11.745 million 2003 Revenue Certificates of Participation, to provide funds to finance the costs of construction of a new diversion dam on the Mokelumne River and related facilities of the water district. A significant portion of the District's sources of payment for the 2003 Certificates are expected to be derived

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

from amounts to be received by the District from the City of Lodi pursuant to an Agreement for purchase of water from the Woodbridge Irrigation District by the City of Lodi, dated May 13, 2003 (the "Lodi Water Sales Agreement"). Under the agreement, the City will purchase 6,000 acre feet of water per annum from the District for 40 years.

(9) Nature and Purpose of Reported Fund Equity

The following is a summary of reserved, unreserved-designated and unreserved-undesignated fund balances at June 30, 2006:

	<u>General</u>	<u>Streets</u>	<u>Other Governmental</u>	<u>Total</u>
Reserved for:				
Library	\$ 659,023			\$ 659,023
Encumbrances	276,305	300,503	200,409	777,217
Advances to other funds	261,880		636,770	898,650
Inventory	123,298			123,298
Total Reserved	<u>1,320,506</u>	<u>300,503</u>	<u>837,179</u>	<u>2,458,188</u>
Unreserved-designated for:				
Specific projects and programs		5,737,407	6,196,598	11,934,005
Total Designated		<u>5,737,407</u>	<u>6,196,598</u>	<u>11,934,005</u>
Unreserved - undesignated	3,048,435			3,048,435
Total Fund Balances	<u>\$ 4,368,941</u>	<u>6,037,910</u>	<u>7,033,777</u>	<u>\$ 17,440,628</u>

Reserved Fund Balance

Reserved represents that portion that is legally segregated for specific purposes and is not available for discretionary appropriation.

Unreserved-Designated Fund Balance

Designated represents that portion for which the City has made tentative plans.

Unreserved-Undesignated Fund Balance

Undesignated represents that portion which is available for budgeting in future periods.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

(10) Defined Benefit Pension Plan

(a) Plan Description

The City of Lodi contributes to the California Public Employees' Retirement System (PERS); an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office- 400 P Street, Sacramento, CA 95814.

(b) Funding policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 11.55% for miscellaneous employees, 30.058% for fire and police employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

(c) Annual Pension Cost

For fiscal 2006, the City's annual pension cost of \$4,814,389 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) (b) projected annual salary increases that vary by age, length of service, and type of employment (c) 3.25% payroll growth, and (d) 3.00% inflation. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis. Amortization of the remaining period varies: (a) safety police plan over 15 years (b) safety fire plan over 15 years, and (c) miscellaneous plan over 18 years as of the valuation date.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

d) Trend Information

Three-Year Trend information (\$ Amounts in Thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	1,384	100%	\$0
6/30/05	3,614	100%	\$0
6/30/06	4,814	100%	\$0

(11) Post-Retirement Health Care Benefits

The City provides no post-employment benefits for its employees. However, employees hired prior to July 1, 1994, who retire after ten years of service, may elect to convert accumulated sick leave time to establish an individual medical insurance account. Depending on the bargaining unit of the employee, the value of the insurance account shall be determined by the following options:

a) Option I - "Bank"

The number of accumulated hours shall be reduced by 16-2/3% and the remaining balance converted into days. The days are then multiplied by the current monthly premium being paid for the employee and, if applicable, his/her dependents. Fifty percent of that amount will be placed into an account to be used by the City to pay medical insurance premiums for the employee and, if applicable, his/her dependents. For each year of employment over ten years, 2.5% will be added to the 50% used in determining the account amount. Total premiums shall be paid from the account until its depletion, at which time the benefit ceases.

b) Option II - "Conversion"

The number of accumulated hours is multiplied by 50% and converted into days. The City pays one month's premium for employee and dependents for each day. For each year of employment in excess of ten years, 2.5% is added to the 50%. The employee must pay any increase in premiums.

c) Option III - "Cash-Out"

A retiring employee will be able to choose a cash pay-off of accumulated sick leave at the rate of 30% of base pay per hour.

d) Option IV - "Service Credit"

A retiring employee will be able to convert unused sick leave to service credit for CALPERS retirement purposes.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

(12) Claims and Benefits

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is self-insured as discussed in the following paragraphs for which liabilities are recorded in the Internal Service Fund.

The City is self-insured for general liability up to the first \$500,000 per occurrence with claims from \$500,000 to \$40,000,000 per occurrence and in the aggregate insured through the California Joint Powers Risk Management Authority. The City never had any settlements that exceeded its general liability insurance coverage. (See note 14)

The City is self-insured for workers' compensation up to the first \$250,000 per claim. Any claims of \$250,000 up to California statutory limits are covered under a purchased policy through the membership with the Local Agency Workers' Compensation Excess Joint Powers Authority. Workers' compensation coverage increased from \$100,000,000 in prior year to \$150,000,000 in the current year. The City never had any settlements that exceeded its workers' compensation insurance coverage. (See note 14).

The City is fully self-insured for dental and unemployment for its employees.

General liability and workers' compensation claims are administered by an outside agency and all other claims are administered by the City. The City has accrued a liability of \$7,083,000 at June 30, 2006, for all self-insured claims in the Internal Service Fund that includes an amount for incurred but not reported claims. The liability amount is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. In the opinion of the City, the amounts accrued are adequate to cover claims incurred but not reported in addition to known claims.

Changes in the self-insurance liability for fiscal years ended June 30, 2006 and 2005 are as follows:

	<u>Beginning</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending</u>
FY 04-05	\$ 5,508,000	1,224,805	(1,592,805)	\$ 5,140,000
FY 05-06	\$ 5,140,000	3,455,368	(1,512,368)	\$ 7,083,000

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

(13) Participation in Joint Ventures

Northern California Power Agency

The City, along with fourteen other public agencies, is a member of the Northern California Power Agency (NCPA) that was formed in 1968 as a joint powers agency. Its membership consists of eleven cities with publicly owned electric utility distribution systems, one irrigation district, one public utility district, one port authority and four other associate member entities. NCPA is generally empowered to purchase, generate, transmit, distribute and sell electrical energy. Members participate in the projects of NCPA on an elective basis. A commission comprising of one representative from each member organization governs NCPA. The commission is responsible for the general management of the affairs, property and business of NCPA. Under the direction of the general manager, the staff of NCPA is responsible for providing various administrative, operating and planning services for NCPA and its associated power corporations.

Project Financing and Construction

NCPA's project construction and development programs have been individually financed by project revenue bonds collateralized by NCPA's assignment of all payments, revenues and proceeds associated with its interest in each project. Each Project Participant has agreed to pay its proportionate share of debt service and other costs of the related project, notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any reason. Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

Increase in Non-defaulting Project Participant's Original Project Entitlement Percentage

Upon the failure of any Project Participant to make any payment, which failure constitutes a default under the Member Agreement for the projects, and except as sales and transfers are made pursuant thereto, the Member Agreements provide that Project Entitlement for each non-defaulting Project Participant shall be automatically increased for the remaining term of the Member Agreement; pro rata with those of the non-defaulting Project Participant thereunder; provided, however, that the sum of such increase for any non-defaulting Project Participant shall not exceed, without written consent of such non-defaulting Project Participant, an accumulated maximum of 25% of the non-defaulting Project Participant's original Project Entitlement Percentage Share.

General Operating Reserve with NCPA

Members of NCPA established a general operating reserve in 1992 for the purposes of providing a vehicle to fund reasonably foreseeable contingent liabilities. It was set up primarily to provide the following advantages: minimizes the number and dollar amount of reserve that might otherwise be funded separately in connection with NCPA's individually financed operating plants, projects and programs; provides each member with flexibility and unilateral control over the determination of what they will fund, how they will fund it and what expenditures from the reserve will be made on their individual behalf. It provides funding for contingent liabilities that are not budgeted but that may require significant future expenditures. The reserve is segregated by participant and is refundable on demand by the participant.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

As of June 30, 2006, the City's balance in the NCPA General Operating Reserve, which has been credited with annual interest earnings and settlements, is \$3,165,581.

Project Participation

The NCPA members and their percentage share at June 30, 2005, which is the most recent available data, are as follows:

	<u>Geothermal Project</u>	<u>Hydro Electric Project</u>	<u>Combustion Turbine Project #1</u>	<u>Multiple Capital Facilities</u>	<u>Transmission Project</u>
Alameda	16.8825	10.00	13.092	19.00	30.2208
Biggs	0.2270		.120		0.3835
Gridley	0.3360		.213		0.6055
Healdsburg	3.6740	1.66	3.500		6.5755
Lodi	10.2800	10.37	34.780	39.50	19.0191
Lompoc	3.6810	2.30	3.500	5.00	6.5889
Palo Alto		19.66			
Plumas-Sierra Rural Electric Cooperative	0.7010	1.69	1.090		1.2658
Roseville	7.8830	15.26	13.251	36.50	13.6850
Santa Clara	44.3905	37.02	25.000		10.2377
Turlock Irrigation District	6.3305				1.3696
Ukiah	5.6145	2.04	5.454		10.0486

Bulk power purchased by the City through NCPA amounted to \$41,169,608 during the year ended June 30, 2006 and is reflected in utilities expense in the Electric Enterprise Fund.

NCPA Geothermal Project

A purchase power agreement with NCPA obligates the City for a 10.28% share of the operating costs and debt service of two of NCPA's 110-megawatt steam powered plants, Project Number 2 and Project Number 3. Outstanding long-term debt related to this project was approximately \$173 million at June 30, 2005.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

In addition to federal geothermal leasehold, steam wells, gathering system and related facilities, the project consists of two electric generating stations (Plant 1 and Plant 2). Each plant has two 55MW turbine generator units utilizing low temperature geothermal steam; associated electrical, mechanical and control facilities; a heat dissipation system; a steam gathering system; a transmission tapline; and, other related facilities. Geothermal steam for the project is derived from the geothermal property, which includes wellpads, access roads, steam wells and reinjection wells.

Calaveras Hydroelectric Project

NCPA contracted to finance, manage, construct and operate Hydroelectric Project Number One for the licensed owner, Calaveras County Water District. In exchange, NCPA has the right to the electric output of the project for 50 years from February 1982. NCPA has also the option to purchase power from the project in excess of the District's requirements for the subsequent 50 years, subject to regulatory approval.

Under a power purchase agreement the City is obligated to pay 10.37% of the debt service and operating costs. At June 30, 2005, approximately \$496 million in long-term debt used to finance this project was outstanding.

NCPA Combustion Turbine Project

The project consists of five combustion turbine units, each nominally rated at 25 megawatts. Two such units are located in Roseville, two in Alameda and one in Lodi. The project provides capacity during peak load periods and emergency capacity reserves. Excess capacity and energy from the project are also sold to other entities from time to time. Under the NCPA power agreement, the City is obligated to pay 34.78% of the debt service and operating costs. At June 30, 2005 approximately \$22 million in long-term debt was outstanding.

Transmission Project

The project was undertaken to meet certain obligations of NCPA under the NCPA/PG & E Interconnection Agreement. The project includes an ownership interest in PG & E's 230kv Castle Rock to Lakeville Substation Transmission Line in Sonoma County, additional firm transmission rights in that Transmission Line, and a central scheduling and dispatch facility in service at the NCPA headquarters in Roseville, California. Under a power purchase agreement, the City is obligated to pay 19.02% of the debt service and operating costs. At June 30, 2005, approximately \$4.8 million in long-term debt was outstanding.

Capital Facilities Project

The Project consists of one 49.9 megawatt natural gas-fired steam injected combustion turbine generator unit located in Lodi, California. Wastewater is reclaimed from the City of Lodi's White Slough water pollution control facility, processed to eliminate contaminants, and used in the turbine to produce steam for power enhancement and emissions control.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

Under a power purchase agreement, the City is obligated to pay 39.5% of the debt service and operating costs. At June 30, 2005, approximately \$66.5 million in long-term debt was outstanding.

The following are the most recent available audited condensed financial statements of NCPA:

Combined Balance Sheet
June 30, 2005

Assets		Liabilities and Capitalization	
Current assets	\$ 63,962,000	Current portion of long-term debt	\$ 56,505,000
Restricted assets	197,387,000	Other current liabilities	50,571,000
Electric plant, net	440,334,000	Other liabilities and deferred credits	129,820,000
Other assets and deferred charges	<u>254,835,000</u>	Long-term debt	700,714,000
		Accumulated net revenues	<u>18,908,000</u>
Total assets	\$ <u>956,518,000</u>	Total liabilities and capitalization	\$ <u>956,518,000</u>

Combined Statement of Revenue and Expenses
Year ended June 30, 2005

Sales to participants for resale	\$ 248,887,000
Operating expenses	(189,421,000)
Other revenues (expenses)	(37,744,000)
Future recoverable costs	<u>(6,535,000)</u>
Net revenues before refunds	15,187,000
Refunds to participants	<u>(7,079,000)</u>
Net revenues	8,108,000
Accumulated net revenues, beginning of year	<u>10,800,000</u>
Accumulated net revenues, end of year	\$ <u>18,908,000</u>

Combined Statement of Cash Flow
Year ended June 30, 2005

Net cash provided by operating activities	\$ 99,855,000
Net cash used in investing activities	12,834,000
Net cash used in capital and related financing activities	(101,029,000)
Net cash provided by noncapital and related financing activities	<u>3,765,000</u>
Increase in cash and cash equivalents	15,425,000
Cash and cash equivalents, beginning of year	<u>101,152,000</u>
Cash and cash equivalents end of year	\$ <u>116,577,000</u>

At June 30, 2005, NCPA's total outstanding long-term debt was \$757,219,000 at an average interest rate of 5%. The current portion of long-term debt at June 30, 2005, was \$56,505,000.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

Complete financial information for NCPA may be obtained at the following administration office:

Northern California Power Agency
180 Cirby Way
Roseville, CA 95678

Transmission Agency of Northern California

The Transmission Agency of Northern California (TANC) was organized under the California Government Code pursuant to a joint powers agreement entered into by fifteen Northern California utilities including the City of Lodi. The purpose of TANC is to provide electric transmission or other facilities for the use of its members through its authority to acquire, construct, finance, operate and maintain facilities for electric power transmission. The joint powers agreement provides that the costs of TANC's activities can be financed or recovered through assessment of its members or user charges through transmission contracts with its members. Each TANC member has agreed to pay a pro rata share of the costs to operate TANC and has the right to participate in future project agreements. The joint power agreement remains in effect until debt obligations and interest thereon have been paid, unless otherwise extended by the members.

Increase in Non-defaulting Project Participant's Original Project Entitlement Percentage

Upon the failure of any Project Participant to make any payment, which failure constitutes a default under the Member Agreement for the projects, and except as sales and transfers are made pursuant thereto, the Member Agreements provide that Project Entitlement for each non-defaulting Project Participant shall be automatically increased for the remaining term of the Member Agreement; pro rata with those of the non-defaulting Project Participant thereunder; provided, however, that the sum of such increase for any non-defaulting Project Participant shall not exceed, without written consent of such non-defaulting Project Participant, an accumulated maximum of 25% of the non-defaulting Project Participant's original Project Entitlement Percentage Share.

California-Oregon Transmission Project

The project is a 339-mile long, 500-kilovolt alternating current transmission project between Southern Oregon and Central California. The project is operated in coordination with the Pacific AC Intertie as a part of the California-Oregon Intertie (COI) within the Western System Coordinating Council (WSCC) region. The WSCC approved rating of the COI is 4,800 MW and the Pacific Direct Current Intertie (PDCI) is 3,100 MW for a combined total of 7,900 MW of transfer capability. Depending on the time of year, operational transfer capability of the combined COI and PDCI is between 6,900 MW and 7,900 MW.

TANC, California Department of Water Resources (CDWR), Western Area Power Authority (WAPA), and five other parties have agreed to an Interim Participation Agreement (IPA) under which project participant is granted a percentage entitlement in project transfer capability and is required to pay a percentage of the costs. Pursuant to the IPA and a subsequent agreement with WAPA, TANC is entitled to use approximately 1,242 MW, and is obligated to pay an average of approximately 73 percent of the operating costs associated with the project.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

Under the TANC joint powers agreement, the City is obligated to pay 1.89% of its debt service and operating costs. At June 30, 2005, approximately \$386 million in long-term debt was outstanding of which \$24 million is considered current.

Complete financial information for TANC may be obtained at the following administration office:

Transmission Agency of Northern California
3100 Zinfandel Drive, Suite 600
Sacramento, CA 95670

(14) Membership in Insurance Pools
California Joint Powers Risk Management Authority

The City is a member, along with twenty-five other public agencies, of California Joint Powers Risk Management Authority (CJPRMA) organized under a Joint Powers Agreement pursuant to the California Government Code for the purpose of sharing the risk of catastrophic general liability, automobile liability and public officials' errors and omissions losses because adequate insurance is not available in the commercial insurance market. CJPRMA has a twenty-one member Board of Directors, including a director from the City of Lodi. The Board members elect officers of CJPRMA every two years.

The ultimate cost of the program to the City depends on the catastrophic losses of all members, as well as the City's own loss experience and will be determined retrospectively five years after the end of the current program year. The City periodically pays deposits to the CJPRMA. These deposits are recorded as expenditures in the year paid, as they are a reasonable estimate of the actual cost of the program. During the year ended June 30, 2006, deposits of \$419,905 were paid to CJPRMA.

The participants at June 30, 2006, are as follows: City of Alameda, CCCMRMIA, Chico, Central San Joaquin Valley Risk Management Authority, Fairfield, Fremont, Livermore, Lodi, Manteca, NCCSIF, Petaluma, Pomona, PERMA, Redding, Redwood Empire Municipal Insurance Fund, Roseville, San Leandro, San Rafael, Santa Rosa, Santa Barbara Area Joint Powers Insurance Authority, Small Cities Organized Risk Effort, Stockton, Sunnyvale, Vacaville, Vallejo, and Yolo County Public Agencies Risk Management Insurance Authority.

Local Agency Workers' Compensation Excess Joint Powers Authority

The City, along with thirty-five other public agencies, is a member of the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX), which was formed July 1992, for the purpose of sharing the risk of workers' compensation losses. All members are self-insured, up to \$500,000 per occurrence. The City of Lodi's self-insured retention is \$250,000. LAWCX members pool resources to pay claims up to \$2,000,000. LAWCX participates in the California Public Entity Insurance Authority to obtain coverage in excess of \$2,000,000 up to \$100,000,000. The City paid \$275,095 in deposits to LAWCX during the fiscal year ended June 30, 2006.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

The participants at June 30, 2006, are as follows: Alameda, ABAG, BCJPIA, City of Benicia, CCCSIF, CCCTA, Central San Joaquin Valley Risk Mgmt Authority (CSJVRMA), City of Clovis, City of Coronado, East Bay Regional Park District, City of Encinitas, FASIS, City of Fremont, City of Gilroy, City of Livermore, City of Lodi, City of Los Gatos, City of Merced, MBASIA, MCLAIA, City of Morgan Hill, City of Newark, PARSAC, City of Placentia, PERMA, City of Roseville, City of San Leandro, City of Santa Maria, City of Santee, Small Cities Org. Risk Effort (SCORE), City of South Lake Tahoe, City of Suisun City, City of Vacaville, City of Vallejo, Vector Control JPA and City of Vista.

California Transit Insurance Pool

The City, along with thirty-six other public agencies is a member of California Transit Insurance Pool (CalTIP), a joint powers insurance authority which was formed for the purpose of sharing the risk of property damage, bodily injury, personal injury and public officials errors and omissions losses for public transit systems.

Liability protection coverage is provided under two programs:

Program I applies to members who choose to utilize CalTIP's adjuster and /or those with a \$0 deductible.

Program II applies to members with self-insured retentions who choose to provide their own adjusting services.

CalTIP purchases excess insurance over its \$500,000 retention up to \$20 million per occurrence. Each member is provided with \$5 million in excess of the pooled retention and has the option to choose one or both of two additional layers for the full \$20 million.

CalTIP also provides physical damage coverage to its members. This coverage program is optional for all members and offers damage or loss protection for transit, staff and maintenance vehicles to transit operators. CalTIP self-insures to \$100,000, under which members have the option of five levels of deductible ranging from \$500 to \$10,000 per vehicle. Claims are administered by the CalTIP's adjuster.

The City paid \$110,973 in deposits to CalTIP during the fiscal year ended June 30, 2006. There have been no reductions in insurance coverage from the prior year and there were no insurance settlements in excess of insurance coverage in any of the last three years

	<u>Program</u>	<u>Self-Insured Retention</u>	<u>Limit (in millions)</u>	<u>Physical Damage</u>
City of Lodi Transit System	I	Prefunded	5	X

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2006

(15) Deficit in Fund Equity

Internal Service Fund - Claims and Benefits - A deficit in fund equity at June 30, 2006, in the amount of \$3,054,636 in the Internal Service Fund is due to the self-insurance liability to cover both incurred and incurred-but-not-reported (IBNR) claims. The City continues its effort to reach the reserves recommended by an actuary and gradually eliminate the deficit in the Internal Service Fund.

(16) Commitments and Contingencies

Litigation and claims - The City is engaged in litigation over its groundwater contamination as a potential responsible party and in litigation with its former outside counsel regarding malpractice and fee claims. The City estimates that it will need to raise \$45 million to cover past costs, past settlements and future obligations and have increased its water rates in an amount sufficient to cover these estimated expenses. Citizen efforts to reduce these rates via initiative failed in November 2006 election by a vote of 64% to 36%. As such, the City Attorney does not anticipate a material effect on the City's financial condition.

The City also faces a false imprisonment claim for a man who spent ten years in prison for a rape he was later found innocent of through DNA testing. However, exposure for fees and judgment is capped at \$500,000 (the amount of the City's self-insured retention). As such, the City Attorney does not anticipate a material effect on the City's financial condition from this action.

All other actions against the City are under \$75,000 or have no arguable cost and will therefore not have a material financial effect on the City.

Arbitrage Earnings Rebate Liability - Arbitrage earnings are defined as income earned on the unexpended tax-exempt certificate proceeds in excess of that which would have been earned had the moneys been invested in securities with a yield of the effective rate of the certificates. Currently, arbitrage earnings must be rebated to the United States Treasury every five years from the date of August 18, 1999, for the Electric System Certificates of Participation. There is no cumulative arbitrage liability as of June 30, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

City of Lodi
Required Supplementary Information
Schedule of Funding Progress - Pension Plan
June 30, 2006
(in thousands of dollars)

Actuarial Valuation Date	Actuarial Asset Value (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded Actuarial Accrued Liability [(B) - (A)]	Funded Ratio [(A) / (B)]	Covered Payroll (C)	Unfunded Actuarial Liability as Percentage of Covered Payroll {[(B) - (A)]/(C)}
6/30/03	\$ 132,001	\$ 149,935	\$ 17,934	88%	\$ 24,978	71.80%
6/30/04	139,694	165,273	25,579	85%	25,640	99.76%
6/30/05	150,967	177,150	26,183	85%	27,215	96.21%

CITY OF LODI
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year ended June 30, 2006

	Original	Final	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 18,871,730	18,114,730	18,093,733	\$ (20,997)
Licenses and permits	68,510	68,510	71,125	2,615
Intergovernmental revenues	13,684,058	14,315,558	15,620,997	1,305,439
Charges for services	2,475,035	2,120,755	1,823,583	(297,172)
Fines, forfeits and penalties	1,137,877	1,134,877	1,161,304	26,427
Investment and rental income	409,664	411,664	376,971	(34,693)
Miscellaneous revenue	161,550	161,550	319,815	158,265
Total revenues	36,808,424	36,327,644	37,467,528	1,139,884
EXPENDITURES				
Current:				
General government:				
City Council	123,675	123,675	92,756	30,919
City Manager	823,246	823,246	823,228	18
City Clerk	391,439	391,439	349,599	41,840
City Attorney	403,467	439,367	434,975	4,392
Human Resources	607,783	607,783	529,070	78,713
Information Systems	1,004,774	1,039,109	1,016,103	23,006
Community Center	1,291,524	1,399,174	1,386,217	12,957
Finance	2,270,693	2,270,693	1,999,997	270,696
Non Departmental	1,776,965	1,878,381	1,713,025	165,356
Total general government	8,693,566	8,972,867	8,344,970	627,897
Public protection:				
Police	13,110,196	12,996,237	12,685,535	310,702
Fire	7,873,052	8,137,038	8,000,638	136,400
Total public protection	20,983,248	21,133,275	20,686,173	447,102
Public Works	6,731,823	6,848,465	6,577,776	270,689
Library	1,541,953	1,543,947	1,468,178	75,769
Parks and recreation	3,705,371	3,716,055	3,434,361	281,694
Debt service:				
Interest and fiscal charges	56,026	56,026	56,026	
Principal payments	282,393	282,393	282,393	
Total debt service	338,419	338,419	338,419	
Total expenditures	41,994,380	42,553,028	40,849,877	1,703,151
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(5,185,956)	(6,225,384)	(3,382,349)	2,843,035
OTHER FINANCING SOURCES (USES)				
Transfers in	7,107,232	7,107,232	6,892,824	214,408
Transfers out	(1,687,184)	(1,687,184)	(1,833,864)	(146,680)
Total other financing sources (uses)	5,420,048	5,420,048	5,058,960	361,088
NET CHANGE IN FUND BALANCE	234,092	(805,336)	1,676,611	2,481,947
FUND BALANCE, beginning of year	1,918,665	2,692,330	2,692,330	
FUND BALANCE, end of year	2,152,757	1,886,994	4,368,941	2,481,947

The note to the required supplementary information is an integral part of this schedule.

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
STREETS FUND
Year ended June 30, 2006

		<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES					
Intergovernmental revenues	\$	7,132,000	7,132,000	8,328,848	1,196,848
Charges for services		940,000	940,000	827,693	(112,307)
Investment and rental income		15,000	15,000	126,578	111,578
Miscellaneous revenue				260,145	260,145
Total Revenue		<u>8,087,000</u>	<u>8,087,000</u>	<u>9,543,264</u>	<u>1,456,264</u>
EXPENDITURES					
Capital outlay		<u>3,714,492</u>	<u>10,600,180</u>	<u>6,817,404</u>	<u>3,782,776</u>
Total Expenditures		<u>3,714,492</u>	<u>10,600,180</u>	<u>6,817,404</u>	<u>3,782,776</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES					
		<u>4,372,508</u>	<u>(2,513,180)</u>	<u>2,725,860</u>	<u>5,239,040</u>
OTHER FINANCING SOURCES (USES)					
Transfers in			9,553		(9,553)
Transfers out		<u>(1,617,491)</u>	<u>(1,617,491)</u>	<u>(1,662,686)</u>	<u>(45,195)</u>
Total other financing sources (uses)		<u>(1,617,491)</u>	<u>(1,607,938)</u>	<u>(1,662,686)</u>	<u>(54,748)</u>
NET CHANGE IN FUND BALANCE					
		2,755,017	(4,121,118)	1,063,174	5,184,292
FUND BALANCE, BEGINNING OF YEAR					
		<u>3,712,746</u>	<u>4,974,736</u>	<u>4,974,736</u>	
FUND BALANCE, END OF YEAR	\$	<u><u>6,467,763</u></u>	<u><u>853,618</u></u>	<u><u>6,037,910</u></u>	<u><u>5,184,292</u></u>

The note to the required supplementary information is an integral part of this schedule.

CITY OF LODI
Notes to the Required Supplementary Information
June 30, 2006

Budgetary Data

The City adopts an annual budget for the general and special revenue funds. These budgets are prepared in accordance with generally accepted accounting principles. As part of the City's internal controls, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with the legal provisions embodied in the annual appropriated budget approved by the City Council. The accompanying financial statements present budget and actual data only of funds for which an annual budget was adopted. The budgets of capital projects are primarily "long-term" budgets that emphasize the major programs and capital project plans extending over a number of years. Due to the long-term nature of these projects, "annual" budget and actual comparisons are not considered meaningful. Formal budgetary integration is not employed for Debt Service Funds since effective budgetary control is alternatively achieved through the bond indenture provisions. Accordingly, no budgetary information is included in the accompanying basic financial statements for capital projects and debt service funds.

The City Council follows the following procedures in establishing the budgetary data reflected in the accompanying basic financial statements:

Original Budget

On or prior to the first regular Council meeting in June of each year, the City Manager submits to the City Council a proposed Financial Plan and Budget for the fiscal year commencing July 1. The budget includes proposed expenditures and the means of financing them.

Budgeted revenues are adopted by the City Council at the time the budget is approved. Budgeted revenues are modified when the tax base changes, when fees are modified or when new revenue sources are identified.

Public hearings are conducted during meetings of the City Council to obtain citizens' comments. Prior to July 1, the budget is legally enacted through passage of a resolution.

Final Budget

The final budgetary data presented in the basic financial statements reflects the following changes to the original budget:

- Budgeted expenditures represent original appropriations adjusted by budget transfers and appropriation amendments. The legal level of budgetary control (that is, the level at which expenditures can not legally exceed the appropriated

amount) is at the department level. The operating budget is prepared and controlled at the department level (e.g., city clerk, city manager, etc.) for the General Fund. Special revenue fund expenditures, including transfers out, are approved by Council at the fund level.

- The City Manager may transfer appropriations from one activity to another within a department without approval from the City Council. All other appropriation adjustments during the year, whether transfers, increases or decreases, require City Council approval.

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COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

NONMAJOR GOVERNMENTAL FUNDS

Nonmajor Governmental Funds include:

Special Revenue Funds account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditures for specified purposes, other than those for major capital projects;

Debt Service Fund account for the accumulation of resources for the repayment of principal and interest on general long-term debt;

Capital Project Funds account for the financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

**CITY OF LODI
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006**

<u>Assets</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
Cash and investments	\$ 562,540	5,607,423	\$ 6,169,963
Restricted assets		1,697,469	1,697,469
Receivables:			
Accounts, net	34,863	2,539	37,402
Interest	2,205	21,038	23,243
Due from other governmental agencies	570,319	369,950	940,269
Loan receivable	1,084,000		1,084,000
Other assets	930	5,089	6,019
Advances to other funds		636,770	636,770
Total assets	\$ 2,254,857	8,340,278	\$ 10,595,135
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and other liabilities	\$ 61,854	16,958	\$ 78,812
Due to other funds	541,543		541,543
Advances from other funds		1,487,053	1,487,053
Deferred revenue	1,084,000	369,950	1,453,950
Total liabilities	1,687,397	1,873,961	3,561,358
Fund Balances :			
Reserved for encumbrances	34,232	166,177	200,409
Reserved for advances to other funds		636,770	636,770
Unreserved-designated for specific projects and programs	533,228	5,663,370	6,196,598
Total fund balances	567,460	6,466,317	7,033,777
Total liabilities and fund balances	\$ 2,254,857	8,340,278	\$ 10,595,135

CITY OF LODI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2006

	Special Revenue	Debt Service	Capital Projects	Total
Revenues:				
Licenses and permits	\$ 948,720			\$ 948,720
Intergovernmental revenues	1,541,185			1,541,185
Charges for services	674,978		521,830	1,196,808
Fines, forfeits and penalties	11,275			11,275
Investment and rental income	14,865		188,643	203,508
Miscellaneous revenue	34,144		39,079	73,223
Total revenues	<u>3,225,167</u>		<u>749,552</u>	<u>3,974,719</u>
Expenditures:				
Current:				
Public protection	176,983			176,983
Public works	1,248,738			1,248,738
Community development	1,846,498			1,846,498
Parks and recreation	6,109			6,109
Capital outlay	52,615		362,079	414,694
Debt service:				
Interest and fiscal charges		1,170,936	10,920	1,181,856
Principal payments		609,662		609,662
Total expenditures	<u>3,330,943</u>	<u>1,780,598</u>	<u>372,999</u>	<u>5,484,540</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(105,776)</u>	<u>(1,780,598)</u>	<u>376,553</u>	<u>(1,509,821)</u>
Other financing sources (uses):				
Transfers in	280,811	1,780,598	187,500	2,248,909
Transfers out			(722,348)	(722,348)
Total other financing sources (uses)	<u>280,811</u>	<u>1,780,598</u>	<u>(534,848)</u>	<u>1,526,561</u>
Net change in fund balances	175,035		(158,295)	16,740
Fund balances, beginning of year	<u>392,425</u>		<u>6,624,612</u>	<u>7,017,037</u>
Fund balances, end of year	<u>\$ 567,460</u>		<u>\$ 6,466,317</u>	<u>\$ 7,033,777</u>

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

**CITY OF LODI
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
June 30, 2006**

	<u>Public Safety</u>	<u>Community Development</u>	<u>Transportation</u>	<u>HOME Program & Community Development Block Grants</u>	<u>Total</u>
ASSETS					
Cash and Investments	\$ 345,978	111,241	105,321		\$ 562,540
Receivables:					
Accounts, net	8,218	26,645			34,863
Interest	1,350	448	407		2,205
Due from other governmental agencies	28,776			541,543	570,319
Other assets		930			930
Loan receivable				1,084,000	1,084,000
TOTAL ASSETS	<u>\$ 384,322</u>	<u>139,264</u>	<u>105,728</u>	<u>1,625,543</u>	<u>\$ 2,254,857</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and other liabilities	\$ 1,282	60,572			\$ 61,854
Due to other funds				541,543	541,543
Deferred revenue				1,084,000	1,084,000
TOTAL LIABILITIES	<u>1,282</u>	<u>60,572</u>		<u>1,625,543</u>	<u>1,687,397</u>
FUND BALANCES					
Fund balances:					
Reserved for encumbrances		31,382	2,850		34,232
Unreserved-designated for specific projects and programs	383,040	47,310	102,878		533,228
TOTAL FUND BALANCES	<u>383,040</u>	<u>78,692</u>	<u>105,728</u>		<u>567,460</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 384,322</u>	<u>139,264</u>	<u>105,728</u>	<u>1,625,543</u>	<u>\$ 2,254,857</u>

CITY OF LODI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year ended June 30, 2006

	Special Grants	Public Safety	Community Development	Transportation	HOME Program & Community Development Block Grants	Total
REVENUES						
Licenses and permits	\$		948,720			\$ 948,720
Intergovernmental revenues		242,370	3,068	47,009	1,248,738	1,541,185
Charges for services			674,978			674,978
Fines, forfeits and penalties		5,100	6,175			11,275
Investment and rental income		7,335	5,105	2,425		14,865
Miscellaneous revenue			34,144			34,144
Total revenues		254,805	1,672,190	49,434	1,248,738	3,225,167
EXPENDITURES						
Current						
Public protection		176,983				176,983
Public works					1,248,738	1,248,738
Community development			1,846,498			1,846,498
Parks and recreation	6,109					6,109
Capital outlay				52,615		52,615
Total expenditures	6,109	176,983	1,846,498	52,615	1,248,738	3,330,943
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(6,109)	77,822	(174,308)	(3,181)		(105,776)
OTHER FINANCING SOURCES						
Transfers in	6,109	21,702	253,000			280,811
Total other financing sources	6,109	21,702	253,000			280,811
NET CHANGE IN FUND BALANCES		99,524	78,692	(3,181)		175,035
FUND BALANCES , beginning of year		283,516		108,909		392,425
FUND BALANCES, end of year	\$	383,040	78,692	105,728		\$ 567,460

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year ended June 30, 2006

	SPECIAL GRANTS		
	FINAL BUDGET	ACTUAL	VARIANCE
EXPENDITURES			
Current			
Parks and recreation	\$ 10,107	6,109	3,998
Total Expenditures	10,107	6,109	3,998
OTHER FINANCING SOURCES			
Transfers in	6,109	6,109	
Total other financing sources	6,109	6,109	
NET CHANGE IN FUND BALANCE	(3,998)		3,998
FUND BALANCE, BEGINNING OF YEAR			
FUND BALANCE, END OF YEAR	\$ (3,998)		3,998

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year ended June 30, 2006

	PUBLIC SAFETY		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Intergovernmental revenues	\$ 175,076	242,370	67,294
Fines, forfeits and penalties		5,100	5,100
Investment and rental income		7,335	7,335
Total Revenue	<u>175,076</u>	<u>254,805</u>	<u>79,729</u>
EXPENDITURES			
Current			
Public protection	<u>199,000</u>	<u>176,983</u>	<u>22,017</u>
Total Expenditures	<u>199,000</u>	<u>176,983</u>	<u>22,017</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(23,924)	77,822	101,746
OTHER FINANCING SOURCES			
Transfers in	<u>21,702</u>	<u>21,702</u>	
Total other financing sources	<u>21,702</u>	<u>21,702</u>	
NET CHANGE IN FUND BALANCE	(2,222)	99,524	101,746
FUND BALANCE, BEGINNING OF YEAR	<u>283,516</u>	<u>283,516</u>	
FUND BALANCE, END OF YEAR	<u>\$ 281,294</u>	<u>383,040</u>	<u>101,746</u>

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year ended June 30, 2006

	COMMUNITY DEVELOPMENT		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Licenses and permits	\$ 994,680	948,720	(45,960)
Intergovernmental revenues		3,068	3,068
Charges for services	465,280	674,978	209,698
Fines, forfeits and penalties		6,175	6,175
Investment and rental income		5,105	5,105
Miscellaneous revenue		34,144	34,144
Total Revenue	1,459,960	1,672,190	212,230
EXPENDITURES			
Current			
Community development	1,971,180	1,846,498	124,682
Total Expenditures	1,971,180	1,846,498	124,682
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(511,220)	(174,308)	336,912
OTHER FINANCING SOURCES			
Transfers in	253,000	253,000	
Total other financing sources	253,000	253,000	
NET CHANGE IN FUND BALANCE	(258,220)	78,692	336,912
FUND BALANCE, BEGINNING OF YEAR			
FUND BALANCE, END OF YEAR	(258,220)	78,692	336,912

SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year ended June 30, 2006

	TRANSPORTATION		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Intergovernmental revenues	\$ 39,400	47,009	7,609
Investment and rental income	500	2,425	1,925
Total Revenue	39,900	49,434	9,534
EXPENDITURES			
Capital outlay	62,866	52,615	10,251
Total Expenditures	62,866	52,615	10,251
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(22,966)	(3,181)	19,785
NET CHANGE IN FUND BALANCE	22,966	3,181	19,785
FUND BALANCE, BEGINNING OF YEAR	108,909	108,909	
FUND BALANCE, END OF YEAR	\$ 85,943	105,728	19,785

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year ended June 30, 2006

HOME PROGRAM and COMMUNITY DEVELOPMENT BLOCK GRANTS			
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Intergovernmental revenues	\$ 3,612,114	1,248,738	(2,363,376)
Total Revenue	<u>3,612,114</u>	<u>1,248,738</u>	<u>(2,363,376)</u>
EXPENDITURES			
Current			
Public works	3,612,114	1,248,738	2,363,376
Total Expenditures	<u>3,612,114</u>	<u>1,248,738</u>	<u>2,363,376</u>
NET CHANGE IN FUND BALANCE			
FUND BALANCE, BEGINNING OF YEAR			
FUND BALANCE, END OF YEAR	\$ <u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

SPECIAL REVENUE FUNDS

Special Grants

This fund has been established to account for the receipt of smaller grants from Federal and State sources.

Public Safety

This fund was established to account for the revenues and expenditures related to the City's share of property forfeited by persons convicted of possession and selling illegal drugs and the State of California auto theft prosecution moneys.

Community Development

This fund was established to account for development planning and project review services including land use entitlements, permit processing and review/inspection of public improvements to ensure orderly physical growth and development of the City.

Transportation

This fund was established to account for the receipt of moneys from the State of California apportioned to the City for transportation purposes. The State has designated 1/4% of the 6% sales tax levied statewide for local transportation purposes. Funding for this program was provided during the 1971 legislative session with the enactment of the Transportation Development Act, which extended the 6% sales tax to include purchases of gasoline. Revenues allocated to the City of Lodi under this program are divided into two categories: Article 8 funds, which are restricted for the improvement and maintenance of street systems; and Article 4 funds, which are restricted for public transit systems.

HOME Program and Community Development Block Grants

This fund was established to account for the City's HOME Program that provides adequate and affordable housing for low and very low-income residents, and Community Development Block Grants provided to the City principally for low and moderate income residents to develop a suitable living environment and expand economic opportunities.

NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECT FUNDS

CAPITAL PROJECT FUNDS

Vehicle and Equipment

This fund was established to account for the financing and replacement of vehicles and equipment for all funds of the City with the exception of the Enterprise Funds. Financing is primarily provided through operating transfers from other funds, interest earnings and sales of surplus property.

Library

This fund is used to account for the acquisition, construction and installation of capital facilities for the Library.

Subdivision

This fund is used to account for construction and installation projects dealing with subdivision work for others.

Hutchins Street Square

When the old Lodi High School burned down, the City purchased the property and renamed it Hutchins Street Square. The Old Lodi High Site Foundation was established and this organization organizes events to raise money for the capital restoration of Hutchins Street Square.

Capital Outlay Reserve

This fund was established to account for the entire City's construction projects and capital purchases in excess of \$10,000 with the exception of those funded through Enterprise Funds. Financing is provided primarily by operating transfers from other funds and from State and Federal grants.

Lodi Lake

This fund was established to account for moneys charged for activities held at Lodi Lake. The Council designated the moneys to be used for Lodi Lake capital projects.

CITY OF LODI
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS
June 30, 2006

	Vehicle and Equipment	Library	Subdivision	Hutchins Street Square	Capital Outlay Reserve	Lodi Lake	Total
ASSETS							
Cash and investments	\$ 290,725	12,626	300,339	2,181	4,964,434	37,118	\$ 5,607,423
Restricted assets					1,697,469		1,697,469
Receivables:							
Accounts, net					2,539		2,539
Interest		51			20,837	150	21,038
Due from other governmental agencies					369,950		369,950
Advances to other funds					636,770		636,770
Other assets					5,089		5,089
TOTAL ASSETS	<u>\$ 290,725</u>	<u>12,677</u>	<u>300,339</u>	<u>2,181</u>	<u>7,697,088</u>	<u>37,268</u>	<u>\$ 8,340,278</u>
LIABILITIES							
Accounts payable and other liabilities	\$				14,673	2,285	\$ 16,958
Advances from other funds					1,487,053		1,487,053
Unearned revenue					369,950		369,950
TOTAL LIABILITIES					<u>1,871,676</u>	<u>2,285</u>	<u>1,873,961</u>
FUND BALANCES							
Fund balances:							
Reserved for encumbrances	2,141				152,771	11,265	166,177
Reserved for advances to other funds					636,770		636,770
Unreserved-designated for specific projects and programs	288,584	12,677	300,339	2,181	5,035,871	23,718	5,663,370
TOTAL FUND BALANCES	<u>290,725</u>	<u>12,677</u>	<u>300,339</u>	<u>2,181</u>	<u>5,825,412</u>	<u>34,983</u>	<u>6,466,317</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 290,725</u>	<u>12,677</u>	<u>300,339</u>	<u>2,181</u>	<u>7,697,088</u>	<u>37,268</u>	<u>\$ 8,340,278</u>

CITY OF LODI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS
Year ended June 30, 2006

	Vehicle and Equipment	Library	Subdivision	Hutchins Street Square	Capital Outlay Reserve	Lodi Lake	Total
REVENUES							
Charges for services					521,830		521,830
Investment and rental income					187,770	873	188,643
Miscellaneous revenue	14,579				20,000	4,500	39,079
Total revenues	14,579				729,600	5,373	749,552
EXPENDITURES							
Capital outlay	63,670	2,653		1,396	278,875	15,485	362,079
Debt service:							
Interest and fiscal charges					10,920		10,920
Total expenditures	63,670	2,653		1,396	289,795	15,485	372,999
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(49,091)	(2,653)		(1,396)	439,805	(10,112)	376,553
OTHER FINANCING SOURCES (USES)							
Transfers in	187,500						187,500
Transfers out					(722,348)		(722,348)
Total other financing sources (uses)	187,500				(722,348)		(534,848)
NET CHANGE IN FUND BALANCES	138,409	(2,653)		(1,396)	(282,543)	(10,112)	(158,295)
FUND BALANCES , BEGINNING OF YEAR	152,316	15,330	300,339	3,577	6,107,955	45,095	6,624,612
FUND BALANCES, END OF YEAR	\$ 290,725	12,677	300,339	2,181	5,825,412	34,983	\$ 6,466,317

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FIDUCIARY FUNDS

Private-purpose Trust Funds

These funds are used to account for trust agreements under which the principal and income benefit individuals, private organizations or other governments.

Agency Fund

This fund was established to account for special assessments collected on the property tax roll by the City on behalf of the property owners within the Industrial Way Beckman Districts and the Downtown and Cherokee Lane Districts.

CITY OF LODI
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 PRIVATE-PURPOSE TRUST FUNDS
 June 30, 2006

	Private-Purpose Trust Funds		
	Library	Hutchins Street Square Bequest	Total
ASSETS			
Cash and Investments	\$ 758,056	1,334	\$ 759,390
TOTAL ASSETS	<u>758,056</u>	<u>1,334</u>	<u>759,390</u>
NET ASSETS	\$ <u><u>758,056</u></u>	<u><u>1,334</u></u>	\$ <u><u>759,390</u></u>

CITY OF LODI
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year ended June 30, 2006

	Private-Purpose Trust Funds		
	Library	Hutchins Street Square Bequest	Total
ADDITIONS			
Investment income and donations	\$ 77,895	30	\$ 77,925
Total additions	<u>77,895</u>	<u>30</u>	<u>77,925</u>
DEDUCTIONS			
Current			
Library	12,862		12,862
Total deductions	<u>12,862</u>		<u>12,862</u>
CHANGE IN NET ASSETS	65,033	30	65,063
NET ASSETS, BEGINNING OF YEAR	<u>693,023</u>	<u>1,304</u>	<u>694,327</u>
NET ASSETS, END OF YEAR	\$ <u><u>758,056</u></u>	<u><u>1,334</u></u> \$	<u><u>759,390</u></u>

CITY OF LODI
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
Year ended June 30, 2006

	Special Assessments			
	Balance 7/1/05	Additions	Deductions	Balance 6/30/06
ASSETS				
Cash and investments	\$ 390,802	809,918	747,092	\$ 453,628
Special assessment receivable	53,580	71,594	53,580	71,594
Interest receivable	2,923	2,196	2,923	2,196
Other assets	1,283		1,283	
TOTAL ASSETS	\$ 448,588	883,708	804,878	\$ 527,418
LIABILITIES				
Agency obligations	\$ 448,588	78,830		\$ 527,418
TOTAL LIABILITIES	\$ 448,588	78,830		\$ 527,418

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STATISTICAL TABLES

UNAUDITED

CITY OF LODI

NET ASSETS BY COMPONENT LAST FOUR FISCAL YEARS (Dollar amounts in thousands)

	Fiscal Year			
	2006	2005	2004	2003
Governmental activities:				
Invested in capital assets, net of related debt	\$ 111,572	\$ 106,293	\$ 100,749	\$ 94,681
Restricted	14,526	13,465	11,205	12,811
Unrestricted	(8,838)	(8,801)	(9,437)	(7,334)
Total governmental activities net assets	\$ 117,260	\$ 110,957	\$ 102,517	\$ 100,158
Business-type activities:				
Invested in capital assets, net of related debt	\$ 77,494	\$ 67,668	\$ 64,214	\$ 62,752
Restricted	10,969	2,351	2,578	240
Unrestricted	1,880	7,445	(7,511)	(10,270)
Total business-type activities net assets	\$ 90,343	\$ 77,464	\$ 59,281	\$ 52,722
Primary government:				
Invested in capital assets, net of related debt	\$ 189,066	\$ 173,961	\$ 164,963	\$ 157,433
Restricted	25,495	15,816	13,783	13,051
Unrestricted	(6,958)	(1,356)	(16,948)	(17,604)
Total primary government net assets	\$ 207,603	\$ 188,421	\$ 161,798	\$ 152,880

Note: The City of Lodi implemented GASB 34 for the fiscal year ended June 30, 2003. Information prior to the implementation of GASB 34 is not available.

Source: City of Lodi Financial Services Division

CITY OF LODI

CHANGES IN NET ASSETS LAST FOUR FISCAL YEARS (Dollar amounts in thousands)

	Fiscal Year			
	2006	2005	2004	2003
Expenses				
Governmental activities:				
General government	\$ 9,746	\$ 9,958	\$ 13,167	\$ 12,238
Public protection	22,105	22,253	19,162	16,632
Public works	13,229	12,377	11,868	10,946
Community development	2,290	-	-	-
Library	1,485	1,484	1,409	1,454
Parks and recreation	4,114	4,565	4,095	3,989
Interest and fiscal charges	1,234	1,617	1,267	1,214
Total governmental activities expenses	54,203	52,254	50,968	46,473
Business-type activities:				
Electric	63,780	57,308	55,943	51,388
Wastewater	8,574	10,653	6,297	6,141
Water	8,256	11,748	7,489	12,879
Transit	3,643	3,018	3,064	5,389
Total business-type activities expenses	84,253	82,727	72,793	75,797
Total primary government expenses	\$ 138,456	\$ 134,981	\$ 123,761	\$ 122,270
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 1,232	\$ 3,639	\$ 3,144	\$ 2,355
Public protection	563	623	525	541
Public works	320	461	430	335
Community development	1,630	-	-	-
Library	54	49	50	57
Parks and recreation	918	833	679	586
Operating grants and contributions	2,587	2,195	2,321	3,315
Capital grants and contributions	14,631	17,559	13,894	6,814
Total governmental activities program revenues	21,935	25,359	21,043	14,003
Business-type activities:				
Charges for services:				
Electric	59,112	53,908	52,899	48,873
Wastewater	8,927	8,086	6,560	6,760
Water	8,343	7,713	6,007	5,532
Transit	386	340	244	293
Operating grants and contributions	3,377	2,731	2,547	1,772
Capital grants and contributions	11,146	3,401	8,268	6,566
Total business-type activities program revenues	91,291	76,179	76,525	69,796
Total primary government program revenues	\$ 113,226	\$ 101,538	\$ 97,568	\$ 83,799
Net (Expense)/Revenue				
Governmental activities	\$ (32,268)	\$ (26,895)	\$ (29,925)	\$ (32,470)
Business-type activities	7,038	(6,548)	3,732	(6,001)
Total primary government net expense	\$ (25,230)	\$ (33,443)	\$ (26,193)	\$ (38,471)

(Continued)

CITY OF LODI

CHANGES IN NET ASSETS (Continued) LAST FOUR FISCAL YEARS (Dollar amounts in thousands)

	Fiscal Year		
	2006	2005	2004
General Revenues and Other Changes in Net Assets:			
Governmental activities:			
Taxes:			
Property	\$ 8,031	\$ 7,124	\$ 7,188
Franchise taxes	8,721	8,918	8,381
Business license tax	973	982	874
Transient occupancy tax	368	352	317
Grants and contributions not restricted to	14,215	13,193	11,895
Investment earnings	328	150	125
Other	1,012	608	590
Transfers	4,923	4,008	2,915
Total governmental activities	38,571	35,335	32,285
Business-type activities:			
Investment earnings	2,008	1,880	2,242
Litigation- environmental lawsuits	6,700	9,150	865
Gain on sale of capital assets	-	-	-
Other	2,056	2,432	2,635
Special item-forgiveness of debt	15,277		
Transfers	(4,923)	(4,008)	(2,915)
Total business-type activities	5,841	24,731	2,827
Total primary government	\$ 44,412	\$ 60,066	\$ 35,112
Change in Net Assets	\$ 6,303	\$ 8,440	\$ 2,360
Governmental activities			
Business-type activities	12,879	18,183	6,559
Total primary government	\$ 19,182	\$ 26,623	\$ 8,919
			\$ 27

The City of Lodi implemented GASB 34 for the fiscal year ended June 30, 2003. Information prior to the implementation of GASB 34 is not available.

Source: City of Lodi Financial Services Division

CITY OF LODI

FUND BALANCES, GOVERNMENTAL FUNDS LAST TEN FISCAL YEARS (Dollar amounts in thousands)

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General Fund										
Reserved	\$ 1,321	\$ 1,185	\$ 1,296	\$ 927	\$ 856	\$ 532	\$ 473	\$ 149	\$ 231	\$ 233
Unreserved	3,048	1,507	157	640	2,208	3,414	3,315	2,562	2,030	2,277
Total General Fund	\$ 4,369	\$ 2,692	\$ 1,453	\$ 1,567	\$ 3,064	\$ 3,946	\$ 3,788	\$ 2,711	\$ 2,261	\$ 2,510
All other governmental funds										
Reserved	\$ 1,138	\$ 4,942	\$ 3,778	\$ 6,405	\$ 3,363	\$ 2,779	\$ 555	\$ 2,167	\$ 943	\$ 10,335
Unreserved, reported in:										
Special revenue funds	6,271	1,400	534	2,322	1,814	2,439	5,774	2,298	3,042	6,224
Debt service funds	-	-	-	-	-	-	-	-	-	228
Capital projects funds	5,663	5,650	5,720	7,655	17,905	1,695	3,511	2,230	1,859	1,827
Total all other governmental funds	\$ 13,072	\$ 11,992	\$ 10,032	\$ 16,382	\$ 23,082	\$ 6,913	\$ 9,840	\$ 6,695	\$ 5,844	\$ 18,614
	\$ 17,441	\$ 14,684	\$ 11,485	\$ 17,949	\$ 26,146	\$ 10,859	\$ 13,628	\$ 9,406	\$ 8,105	\$ 21,124

Source: City of Lodi Financial Services Division

CITY OF LODI

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS LAST TEN FISCAL YEARS (Dollar amounts in thousands)

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Revenues:										
Taxes	\$ 18,094	\$ 17,606	\$ 16,908	\$ 24,100	\$ 23,043	\$ 21,909	\$ 19,801	\$ 18,594	\$ 17,790	\$ 17,029
Licenses and permits	1,020	2,511	2,021	1,669	1,464	1,592	1,406	1,267	1,183	1,012
Intergovernmental revenues	25,491	22,834	16,657	7,385	22,000	11,641	9,054	8,370	6,291	6,316
Charges for services	3,848	9,404	4,479	6,272	3,888	4,249	4,611	3,874	2,871	1,908
Fines and forfeitures	1,173	1,190	1,085	803	806	765	714	878	662	453
Investment and rental income	707	753	537	832	1,234	1,509	982	982	1,060	1,215
Miscellaneous revenue	653	458	473	453	1,349	383	764	242	524	80
Total revenues	50,986	54,756	42,160	41,514	53,784	42,048	37,332	34,207	30,381	28,013
Expenditures:										
Current:										
General government	8,345	10,858	10,815	10,874	8,987	8,862	7,813	7,239	7,068	5,882
Public protection	20,863	20,351	17,491	15,597	13,562	13,190	11,430	11,225	10,896	11,059
Public works	7,827	7,361	7,303	6,926	5,741	6,312	5,039	5,151	4,810	5,749
Community development	1,847	-	-	-	-	-	-	-	-	-
Library	1,468	1,420	1,356	1,316	1,158	1,184	1,040	1,030	966	1,012
Parks and recreation	3,440	3,691	3,412	3,385	2,860	2,999	2,670	2,230	2,174	2,312
Capital outlay	7,232	9,508	10,041	12,943	17,948	12,044	6,420	6,640	18,383	10,810
Debt service:										
Interest and fiscal charges	1,238	1,645	1,245	1,220	679	755	777	797	818	664
Principal payments	892	855	759	730	555	530	505	485	470	275
Total expenditures	53,152	55,689	52,422	52,991	51,490	45,876	35,694	34,797	45,585	37,763
Excess (deficiency) of revenues										
Over (under) expenditures	(2,166)	(933)	(10,262)	(11,477)	2,294	(3,828)	1,638	(590)	(15,204)	(9,750)

(Continued)

CITY OF LODI

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS (Continued) LAST TEN FISCAL YEARS (Dollar amounts in thousands)

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Other financing sources (uses):										
Transfers in	9,142	8,017	9,774	11,209	12,500	9,355	9,715	16,486	24,883	17,782
Transfers out	(4,219)	(4,009)	(6,859)	(8,228)	(13,052)	(10,090)	(7,130)	(14,410)	(23,392)	(16,166)
Capital lease proceeds		124	883		148	670			695	
Proceeds from bond refunding					13,269					
Payment to refunded bond escrow					(13,269)					
Proceeds of certificates of participation					13,396					9,918
Proceeds from special assessment										2,421
Residual equity transfer								(187)		
Total other financing sources (uses)	4,923	4,132	3,798	2,981	12,992	(65)	2,585	1,889	2,186	13,955
Net change in fund balances	2,757	3,199	(6,464)	(8,496)	15,286	(3,893)	4,223	1,299	(13,018)	4,205
Fund balances, beginning of year	14,684	11,485	17,949	26,445	10,859	13,628	9,405	8,106	21,124	16,919
Adjustment to fund balance as previously reported					300	1,124				
Fund balances, end of year	\$ 17,441	\$ 14,684	\$ 11,485	\$ 17,949	\$ 26,445	\$ 10,859	\$ 13,628	\$ 9,405	\$ 8,106	\$ 21,124
Debt service as a percentage of noncapital expenditures	4.9%	5.7%	5.0%	5.1%	3.8%	3.9%	4.6%	4.8%	5.0%	3.6%

Source: City of Lodi Finance Services Division

City of Lodi

TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS LAST TEN FISCAL YEARS (Dollar amounts in thousands)

	Fiscal Year										% Change 1997 to 2006
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	
Property	\$ 7,675	\$ 6,771	\$ 6,948	\$ 6,191	\$ 5,641	\$ 5,322	\$ 4,932	\$ 4,517	\$ 4,374	\$ 4,225	82%
Sales & Use	9,812	9,183	8,533	8,709	8,300	8,028	7,095	6,523	6,205	5,950	100%
Transient Occupancy	368	352	317	400	439	390	318	305	278	249	48%
Franchise	890	821	800	730	931	820	675	618	586	524	70%
Documentary Transfer	355	353	240	207	172	158	116	119	77	66	438%
Motor Vehicle in Lieu	4,402	4,606	2,767	3,430	3,276	3,051	3,008	2,221	2,478	2,144	105%
Public Protection	310	304	264	247	231	242	196	180	180	154	101%
Business License	973	982	874	822	787	736	658	612	593	541	80%
In Lieu Franchise	7,831	8,097	7,580	6,895	6,569	6,015	5,721	5,627	5,546	5,348	46%
Totals	\$ 32,616	\$ 31,469	\$ 28,323	\$ 27,631	\$ 26,346	\$ 24,762	\$ 22,719	\$ 20,722	\$ 20,317	\$ 19,201	70%

Note: General governmental tax revenues are included in taxes, licenses and permits, intergovernmental revenues and miscellaneous revenues.

CITY OF LODI

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY LAST TEN FISCAL YEARS (Dollar amounts in thousands)

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Secured roll	\$ 4,254,184	\$ 3,877,398	\$ 3,619,116	\$ 3,381,945	\$ 3,096,937	\$ 2,880,201	\$ 2,707,343	\$ 2,574,622	\$ 2,515,478	\$2,463,536
Utility roll	3,654	3,782	3,893	3,352	3,379	3,484	3,525	3,826	3,699	3,557
Unsecured roll	216,065	215,469	202,785	207,095	198,678	177,040	163,299	146,345	129,396	125,907
Gross assessed value	4,473,903	4,096,649	3,825,794	3,592,392	3,298,994	3,060,725	2,874,167	2,724,793	2,648,573	2,593,000
Less exemptions	220,590	217,077	212,102	200,957	190,252	185,473	183,294	179,835	176,500	172,945
Net assessed value	4,253,313	3,879,572	3,613,692	3,391,435	3,108,742	2,875,252	2,690,873	2,544,958	2,472,073	2,420,055
Land	1,226,293	1,107,776	1,027,462	960,166	889,262	832,788	787,249	756,166	728,900	709,296
Improvements	2,989,575	2,739,061	2,549,860	2,366,887	2,164,121	1,982,668	1,847,800	1,748,387	1,705,635	1,673,877
Personal property	258,035	249,812	248,472	265,339	245,611	245,269	239,118	220,240	214,038	209,827
Gross assessed value	4,473,903	4,096,649	3,825,794	3,592,392	3,298,994	3,060,725	2,874,167	2,724,793	2,648,573	2,593,000
Less exemptions	220,590	217,077	212,102	200,957	190,252	185,473	183,294	179,835	176,500	172,945
Net assessed value	\$ 4,253,313	\$ 3,879,572	\$ 3,613,692	\$ 3,391,435	\$ 3,108,742	\$ 2,875,252	\$ 2,690,873	\$ 2,544,958	\$ 2,472,073	\$ 2,420,055

Source: San Joaquin County Auditor-Controller's Office

CITY OF LODI

DIRECT AND OVERLAPPING PROPERTY TAX RATES LAST TEN FISCAL YEARS (Rate per \$100 of assessed value)

Fiscal Year	Basic			Total
	Countywide Levy	School	All Other	
2006	1.0000	0.0570	0.0000	1.0570
2005	1.0000	0.0311	0.0000	1.0311
2004	1.0000	0.0475	0.0000	1.0475
2003	1.0000	0.0487	0.0000	1.0487
2002	1.0000	0.0002	0.0000	1.0002
2001	1.0000	0.0002	0.0000	1.0002
2000	1.0000	0.0002	0.0034	1.0036
1999	1.0000	0.0001	0.0034	1.0035
1998	1.0000	0.0019	0.0034	1.0053
1997	1.0000	0.0022	0.0034	1.0056

Source: San Joaquin County Auditor/Controller's Office

CITY OF LODI

PRINCIPAL PROPERTY TAX PAYERS CURRENT YEAR AND TEN YEARS AGO (Dollar amounts in thousands)

Taxpayer	Fiscal Year					
	2006			1997		
	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value (1)	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value
General Mills, Inc	\$ 152,102	1	3.768 %	\$ 226,403	1	9.190 %
Pacific Coast Producers	43,068	2	1.067	45,346	2	1.841
Pacific Coast Producers Corp.	34,267	3	0.849			
Cottage Bakery Inc.	25,341	4	0.628			
Kristmont West	21,961	5	0.544			
Parinehs Exchange 2004 LLC	19,539	6	0.484			
Certainteed Corp.	18,842	7	0.467			
Dart Container Corp.	17,625	8	0.437	12,405	5	0.504
Fountains At Lodi LLC	13,031	9	0.323			
Panattoni, Carl D ETAL	12,984	10	0.322			
Dayton Hudson Corp.	-		-	14,929	3	0.606
Daryl Geweke	-		-	12,865	4	0.522
Wells Fargo Bank	-		-	11,505	6	0.467
California Waste Removal System	-		-	10,766	7	0.437
Wallace Computer Service	-		-	9,669	8	0.392
Willdon Land Co. Partnership	-		-	9,422	9	0.382
Lodi Fab Industries, Inc.	-		-	8,867	10	0.360
Principal Secured Property Valuation	358,760		8.888	362,177		14.702
Other Secured Taxpayers	3,894,424		96.486	2,274,304		92.319
Exemptions relative to secured tax roll	216,944		5.375	172,945		7.020
Total Secured Property Valuation	<u>\$ 4,036,240</u>		<u>100.000 %</u>	<u>\$ 2,463,536</u>		<u>100.000 %</u>

CITY OF LODI

PROPERTY TAX LEVIES AND COLLECTIONS LAST TEN FISCAL YEARS (Dollar amounts in thousands)

Fiscal Year	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Total Collections to Date	
		Amount	Percent of Levy (1)	Amount	Percent of Levy
2006	\$ 7,815	\$ 7,815	100.0%	\$ 7,815	100.0%
2005	7,057	7,057	100.0%	7,057	100.0%
2004	6,570	6,570	100.0%	6,570	100.0%
2003	5,832	5,832	100.0%	5,832	100.0%
2002	5,757	5,757	100.0%	5,757	100.0%
2001	5,182	5,182	100.0%	5,182	100.0%
2000	5,056	5,056	100.0%	5,056	100.0%
1999	4,653	4,653	100.0%	4,653	100.0%
1998	4,444	4,444	100.0%	4,444	100.0%
1997	3,827	3,827	100.0%	3,827	100.0%

1) Per agreement with San Joaquin County, the County provides the City of Lodi with 100% of the amount owed to the City for secured properties, regardless of collection status. In exchange, the County is entitled to 100% of revenues collected for interest and penalties. This agreement is commonly referred to as the Teeter Plan.

Source: San Joaquin County Auditor/Controller's Office

CITY OF LODI

ELECTRIC SOLD BY TYPE OF CUSTOMER FOR FISCAL YEAR ENDED JUNE 30, 2006

Type of Customer	Billed Accounts
City Accounts	184
Contract Large Industrial	6
Contract Medium Industrial	2
Contract Small Industrial	1
Domestic Residential	22,860
Domestic Mobile Home Park	13
Dusk to Dawn	95
Large Commercial	359
Large Industrial	33
Medium Industrial	13
Residential Low Income	1,910
Small Commerical	3,279
Small Industrial	9
Total	<u>28,764</u>

Note: The City of Lodi implemented GASB 44 for the fiscal year ended June 30, 2006.
Information prior to the implementation of GASB 44 is not available.

Source: City of Lodi Financial Services Division

CITY OF LODI

RATIOS OF OUTSTANDING DEBT BY TYPE LAST TEN FISCAL YEARS (Dollar amounts in thousands, except per capita)

Governmental Activities					Business-type Activities					
Fiscal Year	Certificates of Participation	Loan Payable	Notes Payable	Total Governmental Activities	Certificates of Participation	Notes Payable	Total Business-type Activities	Total Primary Government	Population	Per Capita
2006	\$ 24,510	\$ 279	\$ 245	\$ 25,034	\$ 125,340	\$ 2,077	\$ 127,417	\$ 152,451	63	\$ 2,420
2005	25,030	368	245	25,643	126,615	2,230	128,845	154,488	62	2,492
2004	25,530	456	245	26,231	148,675	2,378	151,053	177,284	61	2,906
2003	26,015	543	245	26,803	117,515	2,521	120,036	146,839	61	2,407
2002	26,745	622	245	27,612	75,285	2,660	77,945	105,557	59	1,789
2001	12,980	-	-	12,980	59,931	2,794	62,725	75,705	59	1,283
2000	13,510	-	-	13,510	55,544	2,923	58,467	71,977	58	1,241
1999	14,015	-	-	14,015	9,762	2,892	12,654	26,669	57	468
1998	14,500	-	-	14,500	9,872	3,013	12,885	27,385	56	489
1997	14,970	-	-	14,970	9,978	-	9,978	24,948	55	454

Details regarding the City's outstanding debt can be found in the Note 8 on pages 45-57 of these financial statements.

Source: City of Lodi Financial Services Division

CITY OF LODI

RATIOS OF GENERAL BONDED DEBT OUTSTANDING LAST TEN FISCAL YEARS

(Dollar amounts in thousands, except per capita)

Fiscal Year	Certificates of Participation	Percent of Assessed Value (1) of Property	Per Capita
2006	\$ 24,510	0.5 %	\$ 390.18
2005	25,030	0.6	400.69
2004	25,530	0.7	420.12
2003	26,015	0.7	430.00
2002	26,745	0.8	450.02
2001	12,980	0.4	221.50
2000	13,510	0.5	233.33
1999	14,015	0.5	246.31
1998	14,500	0.5	260.32
1997	14,970	0.6	273.18

General bonded debt is debt payable with governmental fund resources and general obligation bonds recorded in enterprise funds (of which, the City has none).

(1) Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

Source: City of Lodi Financial Services Division

CITY OF LODI

LEGAL DEBT MARGIN INFORMATION LAST TEN FISCAL YEARS (Dollar amounts in thousands)

	FISCAL YEAR									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Assessed valuation (1)	\$ 4,325,000	\$ 3,951,862	\$ 3,686,227	\$ 3,464,195	\$ 3,177,319	\$ 2,942,348	\$ 2,757,557	\$ 2,611,744	\$ 2,538,593	\$ 2,485,366
Conversion percentage	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Adjusted assessed valuation	1,081,250	987,966	921,557	866,049	794,330	735,587	689,389	652,936	634,648	621,342
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt Limit	162,188	148,195	138,234	129,907	119,149	110,338	103,408	97,940	95,197	93,201
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	<u>\$ 162,188</u>	<u>\$ 148,195</u>	<u>\$ 138,234</u>	<u>\$ 129,907</u>	<u>\$ 119,149</u>	<u>\$ 110,338</u>	<u>\$ 103,408</u>	<u>\$ 97,940</u>	<u>\$ 95,197</u>	<u>\$ 93,201</u>
Total net debt applicable to the limit as a percent of debt limit	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1982 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computation shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time the legal debt margin was enacted by the State of California for local governments located within the state.

(1) Reflects City assessed valuation with other exemptions of \$148,903 deducted for 2006.

Source: San Joaquin County Auditor-Controller's Office

CITY OF LODI

PLEDGED-REVENUE COVERAGE LAST TEN FISCAL YEARS (Dollars amounts in thousands)

Fiscal Year	Gross Revenues (1)	Less:	Net	Debt Service			Coverage
		Operating Expenses (2)	Available Revenue	Principal	Interest	Total	
Electric Revenue Certificates of Participation							
2006	\$ 60,339	\$ 54,283	\$ 6,056	\$ 2,350	\$ 2,049	\$4,399	1.38
2005	55,183	48,278	6,905	3,295	3,541	6,836	1.01
2004	55,074	46,858	8,216	4,750	3,203	7,953	1.03
2003	55,304	42,739	12,565	4,575	2,836	7,411	1.70
2002	49,089	63,545	(14,456)	1,100	1,359	2,459	(5.88)
2001	44,594	46,253	(1,659)	-	1,391	1,391	(1.19)
2000	41,219	40,016	1,203	-	1,330	1,330	0.90
1999	37,847	38,141	(294)			-	-
1998	36,281	34,561	1,720			-	-
1997	36,236	32,992	3,244	-	-	-	-

continued

CITY OF LODI

PLEDGED-REVENUE COVERAGE (continued) LAST TEN FISCAL YEARS (Dollars amounts in thousands)

Wastewater Certificates of Participation

2006	9,496	4,886	4,610	1,275	2,077	3,352	1.38
2005	8,650	7,028	1,622	540	1,909	2,449	0.66
2004	6,635	4,385	2,250	175	715	890	2.53
2003	6,824	4,380	2,444	160	639	799	3.06
2002	4,193	4,808	(615)	150	649	799	(0.77)
2001	4,868	4,336	532	145	658	803	0.66
2000	4,000	3,147	853	140	667	807	1.06
1999	4,196	2,957	1,239	125	675	800	1.55
1998	4,034	2,914	1,120	120	682	802	1.40
1997	3,719	2,863	856	115	689	804	1.06

Includes all nongeneral obligation long term debt backed by pledged revenues.

Details regarding the City's outstanding debt can be found in the Note 8 on pages 45-57 of these financial statements.

(1) Total operating revenues including investment earnings.

(2) Total operating expenses exclusive of depreciation and amortization.

Source: City of Lodi Financial Services Division

CITY OF LODI

DEMOGRAPHIC AND ECONOMIC STATISTICS LAST TEN FISCAL YEARS

Fiscal Year	Square Miles	City Population	Population Percent Change	San Joaquin County Population	Population Percent of County	Rank in Size of California Cities
2006	12.81	62,817	0.6%	668,265	9.4%	131
2005	12.81	62,467	2.8%	653,333	9.6%	131
2004	12.79	60,769	0.4%	630,600	9.6%	130
2003	12.69	60,500	1.8%	613,500	9.9%	179
2002	12.62	59,431	1.4%	596,000	10.0%	129
2001	12.60	58,600	1.2%	583,700	10.0%	126
2000	12.50	57,900	1.8%	566,600	10.2%	125
1999	12.32	56,900	2.2%	554,400	10.3%	124
1998	12.32	55,700	1.6%	545,200	10.2%	124
1997	12.32	54,800	0.6%	535,420	10.2%	123

Source: State of California, Department of Finance, Demographic Research Unit.

CITY OF LODI

PRINCIPAL PRIVATE EMPLOYERS FOR FISCAL YEAR ENDED JUNE 30, 2006

<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	Percent of Total City		<u>Labor Force</u>
			<u>Employment</u>		
Lodi Unified School District	2,400	1	9.19	%	26,125
Pacific Coast Producers	1,430	2	5.47		26,125
Lodi Memorial Hospital	900	3	3.44		26,125
Cottage Bakery	695	4	2.66		26,125
Blue Shield	550	5	2.11		26,125
City of Lodi	465	7	1.78		26,125
General Mills	425	6	1.63		26,125
Walmart	317	8	1.21		26,125
Farmers & Merchants Bank	314	9	1.20		26,125
Target	186	10	0.71		26,125
Total	<u>7,682</u>		<u>29.40</u>		

Note: The City of Lodi implemented GASB 44 for the fiscal year ended June 30, 2006.
Information prior to the implementation of GASB 44 is not available.
2000 Census Labor Force figure

CITY OF LODI

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY DEPARTMENT FOR LAST TEN YEARS

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Department:										
Administration	33	37	36	37	34	34	32	30	26	24
Community Development	17	17	17	18	17	17	15	15	14	14
Electric	65	52	52	52	50	47	46	44	44	43
Finance	28	38	38	38	35	34	34	32	34	34
Fire	61	68	61	68	55	52	50	49	48	48
Library	14	15	15	15	14	14	14	14	14	14
Parks & Recreation	31	34	34	34	29	29	26	26	27	26
Police	117	117	116	117	115	114	113	113	112	112
Public Works	99	111	110	110	108	103	99	95	94	92
Total	465	489	479	489	457	444	429	418	413	407

Source: City of Lodi Budget Document

CITY OF LODI

OPERATING INDICATORS BY FUNCTION/PROGRAM/DEPARTMENT FOR FISCAL YEAR ENDED JUNE 30, 2006

General government:	
Building permits issued	2,699
Business tax certificates:	
Retail sales and service	2,565
Manufacturers and processors	125
Professions	322
Miscellaneous contractors, peddlers, delivery vehicles, etc.	533
Utility billing/customer service:	
Number of customers	25,655
Energy sales (KWH)	459,637,092
Peak demand (MW)	127
Public safety:	
Police:	
Major reported crimes	3,234
Total arrests	5,162
Dispatched calls for service	55,937
Fire:	
Interior structure fire calls	66
Non-structural fire calls	158
Hazardous materials calls	26
Emergency medical calls	2,912
Total emergency calls	4,447
Total number of units dispatched	6,055
Public works:	
Miles of streets resurfaced	33
Fleet job orders completed	5,608
Trees planted	300

CITY OF LODI

OPERATING INDICATORS BY FUNCTION/PROGRAM/DEPARTMENT FOR FISCAL YEAR ENDED JUNE 30, 2006

Water utility:	
New connections	266
Water main breaks	8
Wastewater utility:	
Average daily treatment (million gal/day)	6.7MG
Library:	
Registered borrowers	52,779
Circulation of library materials	281,216
Reference, research and informational questions answered	17,342
Annual attendance at libraries	287,986
Number of programs offered	320
Annual attendance at programs	10,872
Public access computer usage	29,896
Community center:	
Community center bookings	220
Instructional classes	509
Registered students	4,369
Yearly attendance	15,369

CITY OF LODI

OPERATING INDICATORS BY FUNCTION/PROGRAM/DEPARTMENT FOR FISCAL YEAR ENDED JUNE 30, 2006

Parks and recreation:

After school program registration (number of participants/sites)	135,000/12
Adult sports	
Program/Participation	36,000
Programs offered	11
Partnerships	5
Tournaments	20
Youth/Teen sports	
Program attendance	200,000
Programs offered	20
Aquatics	
Program attendance	59,000
Number of programs	6

Note: The City of Lodi implemented GASB 44 for the fiscal year ended June 30, 2006.
Information prior to the implementation of GASB 44 is not available.

Source: City of Lodi

CITY OF LODI

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT LAST TWO FISCAL YEARS

	Fiscal Year	
	2006	2005
General government:		
Total square miles	12.81	12.81
Public safety:		
Police:		
Facilities:		
Stations	1	1
Animal control facility	1	1
Police training facility (pistol range)	1	1
Vehicles:		
Marked patrol cars	28	28
Motorcycles and scooters	4	1
Animal control vehicles	3	3
Other automobiles	41	41
Fire:		
Facilities:		
Fire stations	4	4
Vehicles:		
Fire engines	5	5
Trucks/Trailers	7	7
Other automobiles	11	11
Public works:		
Miles of streets	198	100
Miles of alley ways	16	14
Traffic signals	64	60
Street lights	7,203	6,995

CITY OF LODI

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT LAST TWO FISCAL YEARS

	Fiscal Year	
	2006	2005
Parks and recreation:		
Parks and squares	23	23
Park acreage	275	275
Boating facilities - launch lanes	1	1
Senior center	1	1
Community Centers	1	1
Swimming pools	3	3
Baseball/softball diamonds	26	26
Tennis courts	11	11
Skateboard park	1	1
Playgrounds	22	22
Ballpark	26	26
Soccer Field	22	22
Football Field	3	3
Handball/Basketball/Volleyball Courts	8	8
Horseshoe Pits	10	10
Library:		
Central library	1	1
Total items in collection	134,129	137,673
Integrated library system	1	1
Microform readers	1	1
Microform readers/printers	1	1
Self check out machines	1	1
Electric utility:		
Overhead lines 12kv (miles)	129	129
Overhead lines 60kv (miles)	13	13
Underground lines (miles)	151	151

CITY OF LODI

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT LAST TWO FISCAL YEARS

	Fiscal Year	
	2006	2005
Water utility:		
Water main lines	235	230
Water storage capacity (gallons)	1,100,000	1,100,000
Water wells	26	25
Water reservoirs	2	2
Wastewater utility:		
Wastewater main lines (miles)	183	182
Treatment capacity	8.5 MG	8.5 MG
Wastewater treatment plant	1	1
Stormwater utility:		
Stormwater main drain lines (miles)	115	114
Stormwater pump stations	13	14
Central parking district:		
Parking structure	1	1
Parking spaces	2,453	2,453
Parking lots	25	25

Note: The City of Lodi implemented GASB 44 for the fiscal year ended June 30, 2006. Information prior to 2005 are not readily available.

Source: City of Lodi Departments

SINGLE AUDIT REPORTS

CITY OF LODI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Federal Grantor Pass-through Grantor or Direct Program Title	CFDA Number	Grant/Project Number	Expenditures
U.S. Department of Housing and Urban Development			
Passed through San Joaquin County Department of Planning and Building Inspection:			
Community Development Block Grants/Entitlement Grants:			
2005-2006 Program Year	14.218	N/A	\$ 65,916
2004-2005 Program Year	14.218	N/A	189,724
2003-2004 Program Year	14.218	N/A	80,381
2002-2003 Program Year	14.218	N/A	14,858
2001-2002 Program Year	14.218	N/A	237
			<u>351,116</u>
Total U.S. Department of Housing and Urban Development			
U.S. Department of Justice			
Direct:			
Local Law Enforcement Block Grant Program	16.592	2003-LB-BX-00301	11,900
Local Law Enforcement Block Grant Program	16.592	2004-LB-BX-0133	18,854
			<u>30,754</u>
Total Local Law Enforcement Block Grant Program			
			<u>30,754</u>
Total U.S. Department of Justice			
U.S. Department of Transportation			
Passed through California Department of Transportation:			
Highway Planning and Construction	20.205	CML-5144(028)	69,444
Highway Planning and Construction	20.205	CML-5154(021)	64,499
			<u>133,943</u>
Total Highway Planning and Construction			
Direct:			
Federal Transit Formula Grants:			
2005-2006 Program Year - Operating	20.507	CA-90-Y413-00	1,502,852
2005-2006 Program Year - Capital	20.507	CA-90-Y432-00	150,500
			<u>1,653,352</u>
Total Federal Transit Formula Grants			
			<u>1,787,295</u>
Total U.S. Department of Transportation			

(Continued)

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF LODI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Federal Grantor			
Pass-through Grantor or Direct	CFDA	Grant/Project	
Program Title	Number	Number	Expenditures
U.S. Department of Health and Human Services			
Passed through San Joaquin County Department of Health Services Agency:			
National Family Caregiver Support	93.052	A-05-441	<u>7,500</u>
Total U.S. Department of Health and Human Services			<u>7,500</u>
U.S. Department of Homeland Security			
Direct:			
Assistance to Firefighters Grant	97.044	EMW-2003-FG-13104	<u>18,093</u>
Total U.S. Department of Homeland Security			<u>18,093</u>
Total federal awards			<u><u>\$ 2,194,758</u></u>

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF LODI
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year ended June 30, 2006, presents the activity of all federal award programs of the City of Lodi, California (City). The City reporting entity is defined in Note 1 of the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included in the SEFA.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in governmental fund types and the full accrual basis of accounting for grants accounted for in proprietary fund types, as described in Note 1 of the City's basic financial statements.

NOTE 3 – CATALOG OF FEDERAL DOMESTIC ASSISTANCE

The CFDA numbers included in the accompanying SEFA were determined based on the program name, review of grant contract information and Office of Management and Budget's Catalog of Federal Domestic Assistance.

NOTE 4 - SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

<u>Federal Program</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grants/ Entitlement Grants	14.218	\$ 118,447
Federal Transit Formula Grants	20.507	500,000

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The Honorable Members of City Council
City of Lodi, California

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lodi, California (City), as of and for the fiscal year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated November 22, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, federal and state grantor agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Grini & O'Connell LLP

Certified Public Accountants

Sacramento, California
November 22, 2006



MACIAS GINI & O'CONNELL LLP
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The Honorable Members of City Council
City of Lodi, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the City of Lodi, California (City), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

with those requirements that is required to be reported in accordance with OMB Circular A-133 and that is described in the accompanying schedule of prior year findings and questioned costs as item 05-03.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of prior year findings and questioned costs as item 05-03.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above not to be material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City, as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated November 22, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance

This report is intended solely for the information and use of the City Council, management, federal and state grantor agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California

November 22, 2006

**CITY OF LODI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

CITY OF LODI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Identification of major programs:

Community Development Block Grants/Entitlement Grants	CFDA #14.218
Federal Transit Formula Grant	CFDA #20.507

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	No
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Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

See Item 05-03 in the schedule of prior year findings and questioned costs.

CITY OF LODI
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Prior Year Finding No. 05-01

Community Development Block Grants/Entitlement Grants
CFDA No. 14.218
Department of Housing and Urban Development
David-Bacon Act

Criteria

Non-federal entities shall include in their construction contracts, subject to Davis-Bacon Act, a requirement that contractors or subcontractors comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction"). This includes a requirement for contractors or subcontractors to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6).

Condition

The County of San Joaquin performs the function of ensuring that contractors submit weekly a copy of the payroll and a statement of compliance related to construction activities funded by Community Development Block Grant funds for the City. Per our testing of weekly payrolls submitted by one contractor to the County of San Joaquin, we noted that several weekly payrolls records were missing for the period of November 2004 through mid-March 2005. This period corresponds with the contractor's progress payments #7 through #9, which were approved for payment using Community Development Block Grant funds allocated to the City. It is evident that the County of San Joaquin is not receiving a copy of the payroll and a statement of compliance for each week in which contract work is performed. As the County of San Joaquin was missing payrolls and statements of compliance, we could not ascertain a complete population to verify that contractors and subcontractors were submitting weekly required certified payrolls.

Questioned Costs

The amount paid on the contract in question during the year was \$309,180.

CITY OF LODI
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Cause

The County of San Joaquin does not reconcile copies of payrolls and statements of compliance received to progress payments made to the contractor on a timely basis. Per the County of San Joaquin, a final reconciliation of certified payrolls records with progress payments has not been completed. This final reconciliation process is typically done when the City has submitted a "Notice of Completion," a copy of the resolution from the City's City Council accepting the project as completed, and a request to release the contractor's retention payment, at which time the project is closed-out and reported to the Department of Housing and Urban Development's Department of Labor on the County's quarterly report.

Effect

The County of San Joaquin and the City could be subject to sanctions.

Recommendation

The County of San Joaquin should reconcile on a timely basis, at least quarterly to ensure they are receiving a copy of payrolls and statement of compliance each week.

Prior Year Management's Response

County of San Joaquin indicated that the process of performing a final reconciliation when the City has submitted a Notice of Completion, a copy of the resolution from the City's City Council accepting the project as completed, and a request to release the contractor's retention payment, at which time the project is closed-out and reported to the Department of Housing and Urban Development's Department of Labor on the County's quarterly report is sufficient.

CITY OF LODI
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Current Year Status

Per inquiry with the County of San Joaquin staff, the process of performing a final reconciliation when the City has submitted a Notice of Completion, a copy of the resolution from the City's City Council accepting the project as completed, and a request to release the contractor's retention payment, at which time the project is closed-out and reported to the Department of Housing and Urban Development's Department of Labor on the County's quarterly report is sufficient. In addition to a final reconciliation upon completion of a project, certified payroll records are examined upon receipt, so that any necessary corrective action may be initiated prior to compounding with subsequent payroll submittals. The examination will ensure that the social security number and address for each employee on the project is reported on the initial payroll where employees name appears; classification and wage rate compared with applicable wage determination; computations are correct; deductions are permissible; and the statement of compliance is signed by the designated officer of the company. Should any violations of the labor standards requirements be uncovered during the review process, the City of Lodi is notified. Also, when an approved progress payment is received from the City of Lodi, County staff will verify that the County has received certified payrolls for the period covered by the progress payment prior to payment. As such, and since no such findings were discovered this year, we consider the prior year finding to be addressed and cleared.

Prior Year Finding No. 05-02

Community Development Block Grants/Entitlement Grants

CFDA No. 14.218

Department of Housing and Urban Development

Sub-recipient Monitoring

Criteria

A pass-through entity is responsible for award identification. At the time of the award, the pass-through entity should identify to the sub-recipient the federal award information (e.g., Catalog of Federal Domestic Assistance (CFDA) title and number, award name, name of federal agency) and applicable compliance requirements.

Condition

Per our review of the sub-recipient agreement between City and the Salvation Army, we noted that the City did not identify in that agreement the federal award information.

CITY OF LODI
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Questioned Costs

The amount passed-through to the Salvation Army during the year was \$355,360.

Cause

The City was unaware of these requirements.

Effect

The City could be subject to sanctions.

Recommendation

We recommend that the City ensure it includes in its award documentation to sub-recipients the federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements.

Prior Year Management's Response

The Community Development Director for the City indicated that he consulted with the County of San Joaquin, who administers the Community Development Block Program Consolidated Plan for participating jurisdictions, which includes the City, and she indicated she was not familiar with the CFDA title and number of the program. Based on that information, the Community Development Director for the City believed that the City agreement with the Salvation Army was in accordance with OMB Circular A-133.

Current Year Status

As of June 30, 2006 the City has yet to enter into a sub-recipient agreement with Salvation Army for which an allocation has been budgeted in the County's Consolidated Plan. Therefore, there was no signed agreement to review. However, per review of the new sub-recipient agreement form from the City's Community Improvement Manager, the above items were incorporated into the new sub-recipient agreement. Therefore, we consider the prior year finding to be addressed and cleared.

CITY OF LODI
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Prior Year Finding No. 05-03

Community Development Block Grants/Entitlement Grants
CFDA No. 14.218
Department of Housing and Urban Development
Sub-recipient Monitoring

Criteria

Monitoring the sub-recipient's use of federal awards through site visits or other means is required to provide reasonable assurance that the sub-recipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition

The City has a sub-recipient agreement dated November 1, 2004 with the Salvation Army that requires the Salvation Army to submit three quarterly reports and one annual report. Per our testing, we noted that the Salvation Army has not submitted any of the required reports as required by the sub-recipient agreement. Further inquiry established that the City Community Development Department does not have a written sub-recipient monitoring procedures policy.

Questioned Costs

The amount passed-through to the Salvation Army during the year was \$355,360.

Cause

The City Community Development Department does not have in place a sub-recipient monitoring policy that establishes written procedures for effective monitoring of sub-recipients. In addition, per admission of the Community Development Director the City, the Community Development Department does not have sufficient staff to document timely management decisions for audit and monitoring findings, maintain a system to track and following-up on reported deficiencies related to programs funded by the recipient, or maintaining regular contacts with sub-recipients and appropriate inquiries concerning the federal programs.

CITY OF LODI
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Effect

The City could be subject to sanctions.

Recommendation

We recommend that the City put into place a comprehensive monitoring policy that establishes clear guidelines for communication of federal award requirements to sub-recipients, responsibilities for monitoring sub-recipients, process and procedures for monitoring, methodology for resolving findings of sub-recipient noncompliance or weaknesses in internal control, and requirements for and processing of sub-recipient audits, including appropriate adjustment of pass-through entity's accounts. In addition, we recommend that the City obtain sufficient staffing resources in order to enhance monitoring of sub-recipients. Additional funding for staff can be obtained by using Community Development Block Funds for administration. Currently, the Community Development Department can use 20% of Community Development Block Grant Funds for administration, however administration charges to these funds have been well below the allotted percentage.

Prior Year's Management's Response

The Community Development Director indicates that they will not receive any monitoring reports from the Salvation Army until after the City delivers the funds and that any monitoring requirements can be handled in their day to day involvement with the Salvation Army.

Current Year Status

In the current year, there is a new project allocated to the Salvation Army, but the contract has yet to be executed. As such, the City has not disbursed any funds to the Salvation Army this year. Therefore, for the current year there are no progress reports or an annual report for testing. However, the City has not received the required progress reports or an annual report from the prior year's project with the Salvation Army. Although City staff has compiled information from the Salvation Army for reporting purposes, we considered the prior year finding to be a continuing finding for the current year.

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CITY OF LODI, CALIFORNIA

Report to Management

For the Fiscal Year Ended June 30, 2006

CITY OF LODI, CALIFORNIA
Report to Management
For the Fiscal Year Ended June 30, 2006

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City Council
City of Lodi, California

We have audited the financial statements of the City of Lodi, California (City) for the year ended June 30, 2006, and have issued our report thereon dated November 22, 2006. Professional standards require that we provide you with information related to our audit. That information is included in the Required Communications section of this report.

Also, in planning and performing our audit of the financial statements of the City for the year ended June 30, 2006, we considered the City's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements, and not to provide assurance on internal control over financial reporting.

During our audit for the fiscal year ended June 30, 2006, we became aware of a certain matter that represents an opportunity for strengthening the City's internal control and operational efficiency. The Current Year Management Comment and Recommendation section of this report summarizes our comment and recommendation regarding the matter. We also followed up on those matters we became aware of during the previous year's audit. Those matters are included in the Status of Prior Year Recommendations section of this report. This report does not affect our report dated November 22, 2006, on the basic financial statements of the City.

This letter is intended solely for the information and use of City Council and management and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the City's management and staff for the courtesy and cooperation extended to us during the course of our engagement. We have discussed our comments and suggestions with management and would be pleased to discuss them further.

Certified Public Accountants

Sacramento, California
November 22, 2006

CITY OF LODI, CALIFORNIA
Report to Management
Required Communications
For the Fiscal Year Ended June 30, 2006

I. The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 16, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not detected by us.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

II. Significant Accounting Policies

Management has the responsibility for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2006. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

CITY OF LODI, CALIFORNIA
Report to Management
Required Communications (Continued)
For the Fiscal Year Ended June 30, 2006

III. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were (1) depreciation, (2) allowance for doubtful accounts, (3) compensated absences, and (4) self-insurance liability. We evaluated the key factors and assumptions used to develop those estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

IV. Audit Adjustments

For the purposes of this report, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we posed, whether recorded or unrecorded by the City, either individually or in aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

V. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

VI. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If consultation involves applications of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

CITY OF LODI, CALIFORNIA
Report to Management
Required Communications (Continued)
For the Fiscal Year Ended June 30, 2006

VII. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

VIII. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

CITY OF LODI, CALIFORNIA
Report to Management
Current Year Management Comment and Recommendation
For the Fiscal Year Ended June 30, 2006

ADMINISTRATION OF THE COMMUNITY DEVELOPMENT BLOCK GRANT

Condition

Through our single audit inquiries and observations, a lack of segregation of duties within the Community Development Department involving the administration and disbursement of the Community Development Block Grant (CDBG) program funds presents a weakness in controls. Currently, budgets, compliance review requirements, and approval of grant expenditures are all performed by the Community Improvement Manager. The preparation of and the review and approval of documents should be segregated.

Recommendation

We recommend that the duties involving the preparation, processing, authorization, and reporting of CDBG grant activities and related documents should be segregated to strengthen controls over the administration of the CDBG program.

Management Response

The reason for the condition is due to budget restraints and lack of staff. Management would like for a segregation of the preparation of documents by staff and the review and approval performed by management.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Fiscal Year Ended June 30, 2006

ENVIRONMENTAL REMEDIATION

Condition

The Governmental Accounting Standards Board (GASB) issued a Preliminary Views (PV) document on issues related to Accounting and Financial Reporting for Pollution Remediation Obligations on March 25, 2005. This document is proposing that once any one of five specified obligating events occurs, governments would be required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired.

Recommendation

With the City's ongoing environmental contamination remediation issue, we recommend that the City be aware of and review this possible new future GASB standard and ensure that the City be positioned to implement this standard if and when it becomes effective.

2005 Management Response

The City is aware of this PV and plans to analyze its impact on the City's financial statements, so the City's well-positioned if and when it becomes effective.

Current Year Status

The GASB issued Statement No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations in November 2006. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated. However, governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are required to apply the provisions retroactively for all such prior periods presented. Therefore, the current year status is unchanged.

Current Year Management Response

The City is aware of this PV and should have plenty of time to implement this since it is not effective until fiscal year 2008-09.

INFORMATION TECHNOLOGY (IT)

Information Technology Administration – Policies and Procedures

Condition

Administrative policies and procedures exist covering certain areas of IT, but lack sections dealing with network security, password protection and configuration, and confidentiality of information.

Recommendation

The City should consider appending the current administrative policies and procedures to include sections pertaining to computer network security, password protection and configuration, and confidentiality of information.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Fiscal Year Ended June 30, 2006

2005 Management Response

A new Electronic Media Use Policy has been drafted and is in the process of being approved. The new policy is reported by Information Systems (IS) management to address the areas of computer network security, passwords, and confidentiality of information.

Current Year Status

Considered implemented.

Current Year Management Response

New password protection policy has been implemented in accordance with previous recommendation.

Information Technology Administration – New-Hire Training

Condition

New-hire training for the City is not properly documented to include an introduction of IT policies and procedures. New-hire training is the first introduction an employee has to the City's operations and can be an effective method of communicating all pertinent IT policies and procedures. An Information Security Handbook has been completed and is currently under review by the City Manager's office. The City's IS management reported that the handbook is designed to be distributed to all current and new employees and contains information specific to this finding.

Recommendation

The City should continue with efforts to review and implement the Information Security Handbook and disseminate the information to all current and new employees. A statement of understanding should also be signed by employees confirming receipt and acceptance of the policies.

2005 Management Response

Information Systems management agrees with the recommendation.

Current Year Status

Considered implemented.

Current Year Management Response

Information Security Handbook has been published.

Logical Security – Security Administration

Condition

The security administration function is not a documented role with defined responsibilities.

Recommendation

The job description for the Information Systems Manager should be updated to include the security administrator function with a defined role and responsibilities. In this way the expectations of the role and the associated responsibilities are clearly defined for all personnel.

2005 Management Response

City IS management report that a recommendation has been made to the City Manager, including new language to be included in the IS Manager job description, in response to this recommendation.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Fiscal Year Ended June 30, 2006

Current Year Status

In process of being implemented.

Current Year Management Response

Appropriate language has been submitted to the Internal Services Director/Deputy City Manager and the job description has been changed in accordance with the recommendation.

Logical Security – Failed Logon Attempts

Condition

Three failed logon attempts will lock out the user from the network for five minutes. While the five minute disabling period provides a level of control over unauthorized system access, it still leaves the system vulnerable to repeated attempts over an extended period of time and could be enhanced.

Recommendation

While a measure of control exists to address repeated unauthorized access attempts, the City should consider increasing the disabling period to 15-30 minutes to enhance security.

2005 Management Response

Information Systems management agrees that a lockout period of more than five minutes can be done and may be useful. Steps will be taken to implement this recommendation.

Current Year Status

Considered implemented.

Current Year Management Response

After five unsuccessful logon attempts the user is locked out for 30 minutes.

Logical Security - Passwords

Condition

Passwords for the network are only required to be non-zero in length and six to 10 characters for the AS400 and applications. There are no expiration periods for passwords on the network, AS400, or applications. Periodic changing of passwords provides an increased level of security on the network and applications. There is no set number of changes required until a password can be reused.

Recommendation

Password security for the City's network and financial applications should be enhanced by:

- Establishing a minimal configuration standard for the network, AS400, and applications for a password length of at least 6 characters containing both alphas and numerics.
- Instituting and enforcing an expiration period for passwords.
- Configuring the network, AS400, and application to allow only a minimal number (e.g. 5) of password changes before a password can be reused.

2005 Management Response

Information Systems management agrees in principle with the recommendation. There are several reasons the IS Division has not implemented such requirements and restrictions. The Graphical User Interface (GUI) version of the AS400 interface will not easily allow users to change their expired passwords, and most of the IBM users rely on the GUI. The likely result would be some users being locked out of the system for extended periods of time and a significant amount of time being spent re-enabling user accounts.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Fiscal Year Ended June 30, 2006

Current Year Status

Considered implemented.

Current Year Management Response

Passwords now expire every 90 days and new ones must comply with password conventions addressing length, reuse, and complexity.

Logical Security – Automatic Log Off

Condition

There is no automated function to log a user off the network after a set period of inactivity. An open network account with no activity creates the risk of unauthorized usage by someone other than the account owner and should be curtailed whenever possible by automatically logging off an account after a period of inactivity.

Recommendation

The City should consider enhancing their network security by implementing an auto logout period for network connections. Alternatively, desktop screensavers with the password protection activated could be forced down through the network domain. Instituting password protected screen savers should not pose a risk of data loss.

2005 Management Response

Information Systems management agrees in principle with the recommendation. The main reason this procedure has not been implemented is that it must be done enterprise-wide. The Information Systems Division will research the possibility of pushing screensaver password requirements to end users and implement accordingly.

Current Year Status

Considered implemented.

Current Year Management Response

Password-protected screensavers now launch on all city PCs after 15 minutes of inactivity.

Logical Security – Departing Employees

Condition

There is not an official policy and associated procedures outlining the timely notification of the network and applications managers of a departing employee, contractor or temporary worker. Disabling or removing the accounts of inactive users in a timely manner is essential to inhibit malicious activity on the computer systems.

Prior Year Recommendation

The City should develop an official policy and procedure to ensure that the network manager and the financial application managers are notified in a timely manner whenever there is a departing employee, contractor or temporary worker with an active user account to the computer systems.

2005 Management Response

Information Systems management agrees with this recommendation. Such a policy would likely be developed and advanced by someone not in the IS Division.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Fiscal Year Ended June 30, 2006

Current Year Status

Considered unchanged.

Current Year Recommendation

Information Systems management, working in conjunction with the City's human resources division, should work to implement the policy and procedures first noted in our 2005 management letter. In addition, the Information Systems division should conduct and audit of all user logons to the network and the AS 400 applications to ensure that only current and valid personnel have access.

Current Year Management Response

Same condition exists as far as we know.

Logical Security – Access Rights

Condition

There is no policy and procedure to ensure that all system and application access rights are authorized and up-to-date. All users must complete a written application, signed by their supervisor, the respective department head and IS Manager, in order to be issued a user account for the AS400 or any systems hosted by the IBM. The user accounts remain active until revoked. While this addresses the initial issuance of user accounts and their associated authorization level, it does not address the control objective of ensuring that all access rights are up-to-date. Personnel may move between positions wherein the authorizations for those positions are not the same. Currently, reviews only check for obsolete accounts and do not address existing accounts for appropriateness.

Recommendation

The IS Division should establish procedures to periodically review the lists of system and application users to ensure that access rights are authorized and up-to-date. In addition, the process for approving authorization to access the financial application should be reviewed to ensure that only authorized persons are given the proper access to the system. This could include a review of persons by the Director of Finance.

2005 Management Response

Information Systems management believes the current level of review is sufficient, given the number of authorized signatures required to obtain a user account. Periodic reviews are made to ensure that no obsolete accounts exist. Accounts will also be reviewed for appropriateness.

Current Year Status

Through our observation, we could not verify that a) a policy and procedure had been implemented to ensure that all system and application access rights are authorized and are up-to-date; b) logs or checklists documenting periodic reviews of user access rights to ensure proper authorization and that these access rights are up-to-date. Therefore, we consider the condition unchanged.

Current Year Management Response

User lists are periodically reviewed by ISD to identify obsolete accounts and user appropriateness.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Fiscal Year Ended June 30, 2006

Accounting System Development and Maintenance

Condition

While most procedures for the accounting system development and maintenance are in place, they are not formally documented. Having the policies, procedures and standards formally documented should address any ambiguity in implementation and reliance upon only a few key individuals.

Program changes are not always initiated, tested and approved by the functional users before being applied to the production system.

The IS Division Programmer is not restricted from making changes in the production environment and is also responsible for transporting changes and updates from the test environment to the production system.

Recommendation

Official policies, procedures and standards for the accounting system development and maintenance should be documented and maintained. These policies, procedures and standards should ensure that:

- All new programs and changes are initiated and approved by the appropriate user management.
- The impact of new programs and updates are assessed in a test environment before implementation in the production system.
- Programmers do not have update access to the production system, except for emergency fixes.
- Any emergency fix in the production system is properly logged.
- Program testing is reviewed and approved by someone other than the programmer.
- The process of moving programs into the production system is formal, well documented, and performed by someone independent from programming.

2005 Management Response

City IS management staff report that a new Documentation system (DOCS) has been implemented for use by ISD staff members. The system is a repository for system assignments, location of source code files, etc. Management report that current staffing does not allow for implementation of some of these recommendations.

Current Year Status

Condition unchanged.

Current Year Management Response

System documentation is largely complete. Current staffing does not provide sufficient redundancy to allow the type of system testing and implementation recommended.

Packaged Accounting Software and Systems Software – Selection Method

Condition

There is not currently a documented system and application software selection method outlined for the City.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Fiscal Year Ended June 30, 2006

Recommendation

The City should document their system and application software selection processes and ensure that the following areas are addressed:

- Business needs,
- Technical requirements,
- Analysis/comparison of several products
- Implementation issues, including conversion, and
- Cost/benefit analysis

The City should pursue the needs assessment for the new financial and billing system as noted below, but the procedures for system and application acquisition should be documented.

2005 Management Response

The Information Systems Manager has recommended to upper management that a qualified consultant be hired to examine the city's business, technical and user needs as part of the process of selecting a replacement for the city's current financial and billing systems software.

Current Year Status

In process of being implemented.

Current Year Management Response

A staff committee has been impaneled to conduct in-house needs assessment related to ERP replacement. In addition to conducting a needs assessment, the committee will provide recommendations related to what the process and policy issues are in making the assessment of the needs for an ERP replacement. This process will be documented by the Information Systems Division.

Packaged Accounting Software and Systems Software – Test Environment

Condition

The IS Division has implemented a test environment for application software, but not for system software. Update and patches are being applied directly to the production system.

Recommendation

Procedures to test updates to system software should be implemented, either on a separate machine or as a partition with the current AS400, to ensure that updates and upgrades are not applied directly to the production system without proper testing beforehand.

2005 Management Response

The recommendation has merit, under ideal conditions. The IS Division will research the possibility of partitioning the current system to allow for system software testing. Additionally, Information Systems management feels that current testing practices do not present an unacceptable level of risk to the city or the IBM computing environment.

Current Year Status

Condition unchanged. Standard IT management practice requires the testing of any updates before application to the production environment.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Fiscal Year Ended June 30, 2006

Current Year Management Response

Because the cost for setting up a test environment might be considered prohibitive, the IS division is developing alternative approaches to implementing software changes including in depth involvement and testing by experts from the departments for which software changes are to be made.

Computer Operations – Guidance and Continuity

Condition

Computer operations policies, procedures, and standards are not officially documented to provide official guidance and continuity to computer operations.

Recommendation

The IS Division should develop and officially document computer operations policies, procedures, and standards.

2005 Management Response

City IS management reported that the operations desk has thoroughly documented procedures related to the processes and activities of that station. At the same time, the Information Systems Manager has begun the process of compiling an IS Division Policy and Procedures book that will address standards and operating procedures.

Current Year Status

Considered implemented.

Current Year Management Response

Computer operations policies and procedures have been officially documented in accordance with the recommendation.

Computer Operations – Computer Room

Condition

The City has moved the computer room which now has a separate dedicated air conditioning system, Uninterrupted Power Supply (UPS) and generator. The room is secured with standard lock and key controlled by the IS Division staff and facilities maintenance. An intrusion alarm system and temperature and water alarms have been installed and are monitored by a local security company. The room is equipped with a sprinkler system for fire suppression.

Recommendation

The IS Division should consider replacing the water sprinkler system with a dry fire suppression system. If local building ordinance requires the use of a water based system, the City should consider a dual system with a pre-action type sprinkler.

2005 Management Response

It is agreed that a dry fire suppression system would be better than water sprinklers. However, cost may be prohibitive.

Current Year Status

Condition unchanged.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Fiscal Year Ended June 30, 2006

Current Year Management Response

Same condition exists.

Computer Operations – Disaster Preparedness/Business Continuity Plans

Condition

The City currently has no disaster preparedness or business continuity plans in place.

Recommendation

The City should work to develop a comprehensive disaster preparedness and business continuity plan. The plan, upon completion, should be thoroughly tested and provisions made for periodic reviews of the plan.

2005 Management Response

The City IS manager reported that the Division is in the process of developing a disaster recovery and business continuity plan.

Current Year Status

In process of being implemented. The City has developed a comprehensive disaster preparedness plan, however, we could not verify whether the plan has been thoroughly tested.

Current Year Management Response

First draft completed.

Computer Operations – Service Level Agreements

Condition

Service level agreements between the IS Division and the user departments are not in place. Help-desk services are provided, but without documented policies and agreements, an acceptable level of service cannot be properly defined.

Recommendation

Service level agreements between the user departments and the IS Division should be instituted to define the level of service to be expected.

2005 Management Response

Information Systems management agrees with this recommendation.

Current Year Status

In process of being implemented. Management expects to implement the recommendation during the fiscal year 2007-2008 budget process.

Current Year Management Response

Project is underway and service level agreements will be implemented as part of implementing an Internal Services Fund for Information Services in fiscal year 2007-08.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Fiscal Year Ended June 30, 2006

Computer Operations – Unauthorized Use of Software

Condition

There are no procedures in place to ensure that there is no unauthorized use of software within the City.

Recommendation

The IS Division should institute official procedures for the review of software installed on computers at least yearly. The City should make efforts to protect itself from the liability of employees using unauthorized software. An alternative to the physical review of installed software is to require administrator privileges on network computers in order to install any software.

2005 Management Response

The policing of installed software on users' PCs is not done currently, nor is it considered practical at this time.

Current Year Status

While the above recommendation has not been fully implemented, we recognize that the City has taken steps to protect itself from the liability of employees using unauthorized software on City computers. We will consider the prior year letter of comment a continuing condition.

Current Year Management Response

New computers are now configured with modified rights that do not allow installation of software. When old equipment is repaired or when service calls are made by Information Service's staff, inspections are made to determine if there is any unauthorized software. For old computers this procedure will be expanded to include random inspections by IS staff for unauthorized software use.

Computer Operations – Read-Write Access to the JDE Application

Condition

It was noted during our review that read-write access to the JDE application is limited to select Finance and IT Divisions personnel. Other City departments may have only read access to the application. As such, any PO or obligating document must be done manually and then submitted to the Finance Division. Having the individual departments conduct their purchasing outside of the financial application can create situations where departments spend money for which they may not have the budget. City IS management reported that an updated purchasing policy has been passed by the City Council and is scheduled for implementation.

Recommendation

It is recommended that a review be conducted specific to the Purchasing/Accounts Payable function. The City should continue with efforts to implement the new purchasing policy, ensuring that all department POs are managed within the financial application and that budgeted funds are available.

2005 Management Response

Users are granted read-write privileges as warranted. Many departments are now inputting their own requisition and purchasing data, and users are being granted access rights commensurate with their needs.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Fiscal Year Ended June 30, 2006

Current Year Status

Considered unchanged.

Current Year Management Response

No change. Users are granted read-write privileges, as warranted and approved by management. All departments have been trained on the use of JD Edwards purchasing. Not all departments have been utilizing JD Edwards software for purchasing yet. This will be a requirement as part of the service level agreements to be implemented in fiscal year 2006-07.

Other Matters

During the time under audit, the City's IS Division was a sub-office to the City Manager's office and not on par with other City departments, such as Finance and Human Resources. The concern this structure created was that the IS Division was reporting to a functional user or did not have the organizational status of their functional users. This structure had the potential to create conflicts of interest and project planning concerns. However, since year-end, the City has undergone an organizational restructuring. Now, Finance and Human Resources have become divisions, along with the IS Division, of the new

Internal Services Department, which report to the new Deputy City Manager. Now that the IS Division is on par with the Finance and Human Resources divisions, it appears that this concern has been addressed.

In summary, our review of general computer controls of the financial application at the City found that most of these conditions do not preclude the City from a basic level of assurance. Therefore, efforts should be made to either implement the recommendations when staffing and/or funding is available or look for other controls that can be instituted that will strengthen controls. However, the City should address the physical protection of computer assets in the computer room before a basic level of assurance is warranted.

CAPITAL ASSETS

Condition

During our audit of the City's financial statements for the year ended June 30, 2004, we noted that the acquisition and construction of capital assets is maintained on a spreadsheet, outside of the City's accounting system, which can lead to inaccurate recording and depreciation of capital assets.

Recommendation

We recommend that the City place into operation the JDE fixed asset module that records the City's capital assets and automatically calculates depreciation. The system would support the City's depreciation method and automatically post accumulated depreciation expense to the General Ledger module for a specified accounting period.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Fiscal Year Ended June 30, 2006

The system provides methods to track assets, their beginning cost, current value, and method of depreciation. Some of the advantages include:

1. Flexible Asset Numbering System – an unlimited number of assets can be maintained. The assets can be grouped by many types of categories for reporting purposes.
2. User Defined Asset Control - Accumulated depreciation, depreciation expense and asset master accounts can be user specified for each asset.
3. Reports - variety of reports can be produced including a listing of all assets by type, category and description, method of depreciation, and all other information maintained in the master file. The module could be programmed to also print reports listing assets with original cost and current book value plus calculated depreciation for a specified period.

To reduce operating overhead, the City should consider hiring temporary staff for data entry into the capital assets module.

2004 Management Response

When Finance migrated to the JDE General Accounting system in 1997, the implementation of all the modules was prioritized. The Fixed Asset module at the time was at the lowest priority. The task of converting the asset files in JDE requires set up and data entry that the current personnel can not accommodate without overtime or part time help. In light of the current budget cut demands from management, the implementation of the Fixed Asset module is recommended to be deferred at this time.

2005 Status

Condition unchanged.

2005 Management Response

This condition/recommendation will be addressed in the upcoming budget.

Current Year Status

Condition unchanged.

Current Year Management Response

Due to other priorities, this recommendation has not been implemented; lack of staffing is a big hindrance to this implementation, but the City will start the process when vacancies in Accounting are filled.

FTA INDIRECT COSTS

Condition

We noted, during our review of the fiscal year 2003/2004 Federal Transit Administration (FTA) apportionment, that management had originally decided to use the apportionment to cover indirect costs. Per our review of FTA guidelines, grantees who intend to seek FTA reimbursement for indirect costs must prepare a cost allocation plan that has been approved by the FTA or another cognizant Federal agency. Further inquiry determined that the cost allocation plan has not been approved in the prescribed manner.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Fiscal Year Ended June 30, 2006

Recommendation

We recommend that the City perform a review of all grants and make the determination if indirect costs can be applied against grant funds.

2004 Management Response

The Finance Department and Transit will work together in the development of a comprehensive cost allocation plan that will be submitted to FTA for approval. The City will also look into the other grants to determine if indirect costs can be reimbursed once a cost allocation plan is established.

2005 Status

Condition unchanged.

2005 Management Response

This condition/recommendation will be addressed in the upcoming budget.

Current Year Status

Condition unchanged.

Current Year Management Response

The City is looking into retaining a consultant to prepare a cost allocation plan.